ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

A Study on Performance Analysis of Nestle India Limited with Specific Reference to Profitability, Efficiency and Risk Using DuPont Analysis

[1]Ms. Dhanalakshmi K, [2]Dr. Mohamed Siddik

[1]Research Scholar, Bharathiar Univeristy and Asst. Professor, Department of Commerce and Management, Acharya Institute of Graduate Studies, Bangalore

[2]Principal, Research Supervisor, Bharathiar University and Director Rajagiri Dawood Batcha College of Arts and Science, Papanasam, Thanjavur District – 641 205

Abstract: **"Finance is the blood of the organization" Finance is used by individuals (personal finance), by government (public finance), by business (corporate finance), as well as by a wide variety of organization including school and non-profit organizations. Finance is one of the most important aspects of business management. Financial management is two way process in which finances manager obtain funds and money at low cost and risk and use it in higher earning project at minimum risk.**

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth.

This study has aimed in identifying the financial performance of Nestle India Limited through DuPont analysis using the three factors, viz., profit margin, asset turnover and financial leverage.

This study very clearly implies through DuPont analysis, the Nestle India Limited profit is fluctuating and was stagnant consecutively for three years.

Keywords: **Finance, DuPont, Profit Margin, Asset Turnover, Financial Leverage.**

1. INTRODUCTION

Finance studies addresses the ways in the individuals, businesses, and organization raise, allocate, and monetary resources over time, taking into account the risks entailed in the projects.

The term "Finance" may thus incorporate as the study of money and other assets; the management and control of those assets; profiling and managing project risks; The science of managing money.

The word finance comes from the Latin word 'fimis'. Finance is the art and science of handling money. Finance is different from money. Finance may be defined as the provision of money at the time when it is needed. Every enterprise, whether big, medium or small needs finance to carry out on its operation and to achieve its goals. It rightly described as the life blood of business. Finance function or business finance is concerned with procurement of funds and their effective utilization in the business.

Finance is used by individuals (personal finance), by government (public finance), by business (corporate finance), as well as by a wide variety of organization including school and non-profit organizations. In general, the goals of each of the above activities are achieved through the use if appropriate financial instruments, with consideration to their

ISSN 2349-7807
International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

institutional setting. Finance is one of the most important aspects of business management. Without proper financial planning a new enterprise is unlikely to be successful.

Financial management is two way process in which finances manager obtain funds and money at low cost and risk and use it in higher earning project at minimum risk. Expert says that it is science to earn maximum return at minimum risk and control. In financial management, following decision is taken technically.

Financial management is the planning of the requirement of capital investment with the objective of earning higher return incurring the least cost and efficient management of the financial management of the financial affairs of any business enterprise.

Financial analysis is the process of identifying, interpreting the financial statement for the purpose of deriving conclusion for decision making. It helps to identify the firm's financial strength and weakness. It plays a dominant role in managerial decision making. There are various techniques used to analyze the financial statements – such as ratio analysis, fund flow, cash flow, trend analysis, comparative balance sheet analysis etc. Financial Analysis helps in financial management. Financial Management is broadly concerned with the acquisition and use of funds by a business firm.

Financial Management may be defined as planning, organizing, directing and controlling financial activities in a business enterprise. Financial management is concerned with raising financial resources and their effective utilization towards achieving the organizational goals. The 3 broad activities of financial management are:

(1) Financial analysis, planning and control

(2) Management of firm's assets structure, and

(3) Management of the firm's financial structure.

The major objectives of financial management are :

- Profit Maximisation approach
- Wealth Maximisation approach

1.1 IMPORTANCE OF FINANCIAL MANAGEMENT IN BUSINESS:

- Smooth running of the business
- Decision making
- Solution to financial problems
- Determination of business success
- Successful promotion
- Co-ordination of functional activities

1.2 AREAS OF FINANCE FUNCTION:

- Investment decision – These decisions are concerned with the effective utilization of funds in one activity or other. It relates to the selection of assets in which funds are to be invested by the firm.
- Finance decision – finance decision is concerned with the composition of the source of raising the funds required by the firm. It relates to the pattern of financing.
- Liquidity decision – This is working capital management. It concerned with management of current assets.
- Dividend decision – Dividend decision is all about the amount of profit to be distributed and retained in the firm.
- Decision regarding reporting, monitoring, and controlling funds – This function leads to optimum utilization of financial resources to maximize the financial return to the organization.

1.3 FUNCTIONS OF FINANCIAL MANAGEMENT:

- Estimation of capital requirements
- Determination of capital composition

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

- Choice of sources of funds
- Investment of funds
- Disposal of surplus
- Management of cash

FINANCIAL ANALYSIS;

➢ Financial statements are the product of accounting system it points out the problems faced or likely to be faced.

➢ The firm it also brings to its notice opportunities that are likely to arise it indicates possible action when needed.

➢ The analysis of financial statements is process of evaluation relationship between the components of financial statement.

➢ To obtain a better understanding of the firm's position and performance. Analysis of financial statements involves methodical of accounting data identification relevant data.

➢ Expressing the Relationship to identify strong and weak areas of business operations and to seek possible answer to problems in view.

➢ Planning helps every management in using the limited resources of the firm efficiently and economically.

➢ The future plans of the firm should be paid down in views of the firm's financial strengths and weakness.

➢ The financial analysis is the starting point for making plans before using any sophisticated forecasting and budgeting procedures.

➢ Financial analysis is the process of identifying the financial strengths and weakness of the firm.

➢ The properly establishing relationship between the items of the balance sheet and profit and loss.

➢ It includes establishing account the analysis includes establishing relationship comparison and setting trends.

➢ The financial planning analyzing and decision making is the financial information.

➢ It is requiring to aid in economic decision making investment and financial decision making.

➢ The financial statement is the product of accounting work done during the accounting period.

➢ Financial statement normally includes balance sheet and profit and loss account also called income statement.

➢ These are described as summarized presentation of monetary data organized according to certain accounting principles and procedures.

➢ The financial statements are historical documents and relate to a past period. The business enterprises prepare their financial statement frequently.

➢ A firm communicates financial information to the user through financial statement and reports. Financial statements contain summarized information of the firm's financial affairs.

➢ Organized systematically they are means to present the firm's financial situation to the users.

TOOLS OF FINANCIAL ANALYSIS:

There are many methods of techniques used to analyze the financial statements. Those are:

➢ Ratio analysis

➢ Trend analysis

➢ Comparative analysis

➢ Common size analysis

- Fund flow analysis
- DuPont Analysis
- Cash flow analysis

ALT MAN Z-SCORE MODLE:

A predictive model created by Edward Altman in the 1960's. The model combines 5 different financial ratios to determine the likelihood of Bankruptcy amongst companies. The Z-Score formula for predicting bankruptcy was published in 1968 by Edward Altman was at the time an assistance professor of finance at New York University the formula may be used to predict the probability that a firm will going to bankruptcy within two years Z-score are used to predict corporate income and balance sheet values to measure the financial health of a company.

2. REVIEW OF LITERATURE

Daniel L (2001)[1] An agency theory framework is used to test the effects of founding family control on firm performance, capital structure, and value. Both the finance and management literatures regarding the relationship between firm control and firm value are explored. Controlling for size, industry, and managerial ownership, the results suggest that firms controlled by the founding family have greater value, are operated more efficiently, and carry less debt than other firms.

Dean Amel (2004)[2] in response to fundamental changes in regulation and technology, the financial industry is undergoing an unprecedented wave of consolidation. A growing body of empirical literature measures the efficiency gains from mergers and acquisitions; however there is little sense of how the results might depend on the country, industry and time period analyzed. In this paper we review critically works that cover the main sectors of the financial industry (commercial and investment banks, insurance and asset management companies) in the major industrialized countries over the last 20 years, searching for common patterns that transcend national and sectoral peculiarities. We find that consolidation in the financial sector is beneficial up to a relatively small size, but there is little evidence that mergers yield economies of scope or gains in managerial efficiency.

Allen N. Berger (1990)[3] We estimate the cost, standard profit, and alternative profit efficiency effects of bank mergers of the 1990s. The data suggest that on average, bank mergers increase profit efficiency relative to other banks, but have little effect on cost efficiency. Efficiency gains are much more pronounced when the participating banks are relatively inefficient ex ante, consistent with a hypothesis that mergers may “wake up” inefficient management or are used as an excuse to implement unpleasant restructuring. The data suggest that part of the efficiency gains result from improved diversification of risks, which may allow consolidated banks to shift their output mixes from securities toward loans, raising expected revenues

OBJECTIVES OF THE STUDY:

The main objectives of the study are as follows:

- To study the concept of Return on Equity as a sickness predicators.
- To study the financial performance of Nestle India Limited by applying DuPont analysis.
- To study the profitability, efficiency and Risk level of Nestle India Limited.

STATEMENT OF THE PROBLEM:

The objective is to evaluate financial healthiness of Nestle India Limited the performance of an organization should be analyzed by using various important techniques DuPont ANALYSIS is one amongst strongest tools in analyzing the financial statements which is based on various cash basis. An organization performance may be affected due to effect on profitability less efficiency or it may be form risk and RETURN ON EQUITY is the vital financial tool where it plays a key role in identifying all kinds of above mentioned reasons which effects on financial performance of an organization and the proper measures could be taken to solve the financial hindrances and the financial concert can be improved hence the relevance of this study is taken.

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

SCOPE OF THE STUDY:

The scope of the study covers the operational jurisdiction of Nestle India Limited. The study covers the overall financial performance of the organization and the study is confined only to financial and accounts department of the organization the study has been focused on profitability condition efficiency and effectiveness of the company and the study has been focused on profitability condition efficiency and effectiveness of the company and the study is restricted for last 6 years (2011-2016).

3. METHODOLOGY OF RESEARCH

The criteria for the validity of any research study lies in its methodology. An inquiry would prove a failure if it is not done along certain methodical lines. The method of study adopted to carry out this project work is mainly through personal interview with the accounts manager. The study comprises of the company's operations and the techniques followed by them.

This Study Is Entirely Based On

- Personal interviews
- Annual reports of KS&DL

DATA COLLECTION:

The data required was collected from the primary and secondary sources.

Primary Data:

The tools used for primary data collection is purely based on personal interview with the executives and staff of the entire departments for collecting data about company.

Secondary Data:

The secondary data has been collected from the previous annual reports of the board, company broachers and websites.

LIMITATIONS OF THE STUDY:

The limitations of the study are as follows:

- Some of the information is considered as confidential and not available for the study.
- Analysis in the study will be dependent on the information supplied by the company.
- Study is restricted to three years data only. The study is confined only to Nestle India Limited.
- The study is limited to cost analysis and control, therefore finding cannot be generalized the entire finance platform.
- There was no access to the other records of the company except annual report.

TOOLS OF THE ANALYSIS:

Tables, graphs, Ratio Analysis, Receivables and payables management and cash management are to be used to analyze the five years ratios and financial performance of Nestle India Limited.

DATA ANALYSIS:

Tables were used for the analysis of the collected data. The data is also neatly presented with the help of statistical tools such as graphs and pie charts, Percentages and averages have also been used to represent data clearly and effectively.

REFERENCE PERIOD:

For the study, six financial year data has been collected and classified and tabulated. The period covered is 31/12/2011, 31/12/2012, 31/12/2013, 31/12/2014, 31/12/2015. Hence the accuracy of drawn conclusions depends on the precision and extent of data used for the purpose.

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

4. DATA ANALYSIS AND INTERPRETATION

The term Analysis and Interpretation refers to the process the process of determining financial strengths and weaknesses of the firm by establishing a strategic relationship between the components of financial statements and other operating data.

The purpose of analysis is to diagnose the information contained in financial statements so as to judge the profitability and soundness of a firm. analysis means simplifications of financial data by methodical classification of data given in the financial statements. Interpretation means explaining the meaning of and significance of data so simplified.

The analysis and interpretation of profitability, Effciency and risk is used to determine the financial position and results of operations as well.

Following are the common devices used to analyze the data.

RETURN ON EQUITY (ROE) USING DUPONT ANALYSIS:

Return on equity (ROE) measures the rate of return for ownership interest (Shareholders equity) of common stock owners. It measures the efficiency of a firm at generating profits from each unit of shareholder equity, also known as net assets or assets minus liabilities.

The Dupont analysis also called the Dupont model is a financial ratio based on the return on equity ratio that is used to analyze a company's ability to increase its return on equity. In other words, this model breaks down the return on equity ratio to explain how companies can increase their return for investors.

The Dupont analysis looks at three main components of the ROE ratio., viz., profit margin, total asset turnover ratio and financial leverage

RETURN ON EQUITY = PROFIT MARGIN * TOTAL ASSET TURNOVER * FINANCIAL LEVERAGE:

I. PROFIT MARGIN:

The state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.

“Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

Formula:-

PROFITABILITY = PROFIT AFTER TAX

NET SALES

II. EFFICIENCY:

The comparison of what is actually produced or performed with what can be achieved with the same consumption of resources (money,time,labor, etc.). it is an productivity. See also effectiveness.

Formula:-

EFFICIENCY = NET SALES

AVERAGE TOTAL ASSETS

III. FINANCIAL LEVERAGE:

A probability or threat of damage, injury, liability, loss or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.

FINANCIAL LEVERAGE = TOTAL ASSETS

TOTAL EQUITY

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

TABLE 1 : SHOWING THE PROFIT MARGIN

PROFIT MARGIN = NET INCOME * 100 **NET SALES**

YEAR	NET INCOME (RS)	NET SALES(RS)	RATIO (%)
2010 – 2011	166974	74908.2	22
2011 – 2012	156305	83022.6	18
2012 – 2013	171246.2	90619	18
2013 – 2014	185083	98062.7	18
2014 – 2015	157886.8	81232.7	19

ANALYSIS:

From the above table it can be observed that the profitability Ratio of the company where the net income is fluctuating and Net sales has gradually increased year by year.

INTERPRETATION:

It is year 2010-2011 is 2.2% ,2011-12 is 1.8%, 2012-2013 is 1.8%, 1.8% in the year 2013-14 & 19% 2014-15 the company's profits positions has decreased compared to the year 2010-11 to 2014-15 and gives the sign of the company is recovering back to its profitability position.

TABLE 4.2 SHOWING THE EFFICINCY RATIO

EFFICIENCY RATIO = NET SALES * 100 **AVERAGE TOTAL ASSETS**

YEAR	NET SALES (Rs)	AVERAGE TOTAL ASSETS (Rs)	RATIO (%)
2010 – 2011	74908.2	25819.6	29
2011 – 2012	83022.6	25819.6	32
2012 – 2013	90619	11843.75	76
2013 – 2014	98062.7	29097.5	33
2014 – 2015	81232.7	30402.3	26

ANALYSIS:

From the above table it is observed that the efficiency ratio of the company in is fluctuating and the asset turnover of the company was efficient in the year 2012-13 compared to all other years, respectively.

TABLE 3 : SHOWING FINANCIAL LEVERAGE

TOTAL ASSETS **TOTAL EQUITY**

YEAR	TOTAL ASSETS (RS)	TOTAL EQUITY (RS)	RATIO (%)
2010 – 2011	51639.2	11775.4	43.8
2011 – 2012	51639.2	17984.1	28.7
2012 – 2013	63142.7	23687.5	26.6
2013 – 2014	58195.0	28372.1	20.5
2014 – 2015	60804.6	28178.4	21.5

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 3, Issue 4, pp: (166-174), Month: October - December 2016, Available at: www.paperpublications.org

ANALAYSIS:

From the above table it is observed that the assets of the company is fluctuating and has increased in the year 2012-13, which implied assets were more purchased in the year 2012-13. However, the equity has been drastically increased from year to year.

TABLE 4 : SHOWING THE RETURN ON EQUITY THROUGH DUPONT ANALYSIS

YEAR	PROFIT MARGIN RATIO (%)	ASSET TURNOVER RATIO (%)	FINANCIAL LEVERAGE (%)
2010 – 2011	22	29	43.8
2011 – 2012	18	32	28.7
2012 – 2013	18	76	26.6
2013 – 2014	18	33	20.5
2014 – 2015	19	26	21.5

ANALYSIS: The above table very clearly implies that in the year 2010-11, the financial leverage was 43.8 times, where the profit margin was 22%. However the profit margin has retained with + 2% variations with 21.5 times of 2014-15 year. This very clearly states, the profit margin is maintained with the assets turnover and minimized their financial leverages year by year.

5. FINDINGS

- The Net income of the company has increased from 2010-11 to 2012-13 (i.e., Rs 74908.2 Rs, 1,56,305, Rs 1,71,246.2) and has decreased in the year 2013-14 (Rs 185083) and has increased in the year 2014-15 (Rs 157886.8).
- The Net sales of the company are fluctuating from one year to the year. However, there is a sign of increase in the year 2012-13 and 13-14, respectively.
- The profit margin of the company has been stagnant for three consecutive years i.e., from 2011 to 2014. However it has slightly increased, which gives a good sign of the company is increasing their profits.
- Return on equity has gradually decreased comparing to the base year 2014-2015. It is not a good for the company as well as to the shareholders of the company.
- But in the year 2014-2015 the company's profit position is increasing that means company is recovering from financial crisis it is a good sign for the company.
- Asset turnover ratio are fluctuating compared to the base year 2014- 2015 that means companies assets are generating. Hence it indicates that the company in managing to generate sales as per rupee of the current assets in well manner. It is a very good sign for the company.
- This indicates that the speed which the inventory is moving through firm although has reduce at a point of time is recovering and is moving faster.
- It is a caution to the company indicating that the movement of the stock has to be speeded up more to ensure better profitability.

6. SUGGESTIONS

Through the company's financial position is good there are some areas detected during the analysis which calls for attention of the company to ensure effective cash management.

The following are some of the suggestions -which may lead to better management of cash of the company.

The company should have effective control over cash flows or payments which helps in better cash management and reducing cash requirements.

- It can be suggested that the company should try to maximize the Net Revenue.

- The company should also try to reduce cost.
- The company should try to manage its assets efficiency to increase the efficiency of its assets through fixed assets management and working capital management and techniques.
- The company should also properly managed to its tax so that it contributes to overall profitability.
- The company should adopt variable overhead techniques to reduce the various cost such as variable cost and fixed cost.
- The company should identify the appropriate source of finance and the rate at which such funds can be mobilized.

7. CONCLUSION

The cash flow analysis will show the investment and financing operating activities of the company and also the cash increase in decrease in the cash. The cash payment for the sales of goods and service received from the debtor's payment purchased from the purchase of inventories and cash payment for the creditors.

Long term assets non-operating current assets and investments. The net effects of inflow and outflow of cash relating to these financing activities is determined the cash flow statements.

From the following application of this model in finding the financial soundness of the company it can be concluded that in this era of industrial volatility profitability of the company is more volatility.

The company lacks in managing the cash effectively so it must correct the imbalances of the cash by pumping additional cash into the firm.

REFERENCES

BOOKS REFERRED:

[1] Prasanna Chandra, Financial Management, Tatal MacGraw Publisher, Edition 3, 2010

[2] Ravi and Kishore, Financial Management, Kalayani Publisher, Edition 1, 2009

[3] I.M. Pande, Financial Management, Vikas Publishing House Pvt. Ltd., Edition 2, 2009.

[4] Articles referred:

[5] Daniel L, etal.(2001), Journal of Small Business Management, Volume 39, Issue 1, pages 31–49

[6] Dean Amel (2004), Journal of Banking & Finance, volume 28, issue 10, pp 2311-2564

[7] Allen N. Berger (1990) Volume 3 of the series The New York University Salomon Center Series on Financial Markets and Institutions pp 79-111.

Websites:

[8] www.nestleindialtd.org

[9] http://en.m.wikipedia.org/wiki/Mysore_Sandal_Soap

[10] https://www.google.co.in/?gfe_rd=cr&ei=Gm3tVJm7JqLM8gfLs4HQAg#q=karnataka+soaps+and+detergents+limited+bangalore

Company Reference:

[11] Company profile of Nestle India Limited, Bangalore.

[12] Annual reports of the company.