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A Study on Short-Term And Long-Term Solvency Of Nestle Pvt Ltd

KEYWORDS

MILY WILLIAMS

ABSTRACT *The present investigation was aimed at studying the NESTLE PVT LTD during the year 2012-2014. The study was based on the secondary data. Statistical tools used in this project are short-term solvency ratio and long- term solvency ratio. Hence the result of the short-term solvency ratio is not satisfactory and the long-term solvency is moderate which will have improved by paying due attention.*

Introduction

Nestlé was formed in 1905 by the merger of the Anglo-Swiss Milk Company, established in 1866 by brothers George Page and Charles Page, and Farine Lactée Henri Nestlé, founded in 1866 by Henri Nestlé. The company grew significantly during the First World War and again following the Second World War, expanding its offerings beyond its early condensed milk and infant formula products. Nestlé's products include baby food, bottled water, breakfast cereals, coffee and tea, confectionery, dairy products, ice cream, frozen food, pet foods, and snacks. Nestlé has a primary listing on the SIX Swiss Exchange and is a constituent of the Swiss Market Index. It has a secondary listing on Euro next. In 2011, Nestlé was listed No. 1 in the Fortune Global 500 as the world's most profitable corporation. With a market capitalization of US$233 billion, Nestlé ranked No. 9 in the FT Global 500 2013.

The short –term creditors of a company like suppliers of goods of credit and commercial banks providing short-term loans, are primarily interested in knowing the company's ability to meet its current or short-term obligation as and when these become due. Long term solvency ratios indicate a firm's ability to meet fixed interest and cost and repayment schedules associated with its long –term borrowings.

Review literature

Mr.praveen cherian(2001) "A study on financial analysis of D/E/N connector Ltd,cochin".

The objective of the study is to analyze the company's ability to meet current obligation and the efficiency utilizing the asset and finally to measure overall performance and effectiveness of the company. The finding are the working capital turnover ratio has been increasing steadily over the year this indicates efficient management of working capital and the total debt ratio shows downward trend it indicates the company less dependent on outside debt.

R.Rajamani(2012) "Financial performance appraisal of group companies.

R.Rajamani "Financial performance appraisal of group companies. A case study of lakshmi group Coimbatore" concluded that "Except for a few minor weaknesses, the group in fact has been efficient in maintaining the financial capabilities to support all its expansion and diversification programmes. Hence the group does not require passing through a long way to indigenize all its n to achieve complete self sufficiency in the textile field.

Mr.M.R .Shanmugam(2012) conduct "The financial performance of district cooperative spinning mills A study on the selected units in tamilnadu".

Mr.M.R .Shanmugam' conduct "The financial performance of district cooperative spinning mills A study on the selected units in tamilnadu"for which the following objective were framed namely to study the liquidity and activity management of the sample mill and to measure the long term solvency and overall financial performance and effectiveness of the sample mills and from above objectives the data were collected and analyzed .The analysis shows the following findings namely the inventory of cotton yarn in Anna and dharmapuri mills increased by 13.72 % and 62.75% respectively while in bharathi mill, the inventory of cotton yarn decreased by 46.28%and the cash position of the 3mills was gradually declining.

Statement of the problem

Liquidity refers to the ability of a concern to meet its current obligations as and when these become due. Long term Solvency refers to the ability of a concern to meet its long term obligation. Hence the study has been undertaken to analyse the short term and long term solvency of the concern.

Objectives of the study

The following are the objectives of this research:

1. To study the short-term solvency of the firm.
2. To study the long-term solvency of the firm.

Scope of the study

The present research is to study the liquidity position and long term solvency of the NESTLE PVT LTD

Research Methodology

To achieve the above mentioned objectives the present study is diagnostic in nature which makes use of secondary data. The relevant data have been extracted from the database of nestle pvt ltd. The period of study is five year from 2008 to 2013. To analyze the data, financial tool ratio

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analysis has been used.

Analysis and Interpretation

TABLE 1

LIQUIDITY RATIOS
(IN CRORES)

YEAR	CURRENT RATIO	LIQUID RATIO	ABSOLUTE LIQUID RATIO
2008-09	1.44	0.15	0.02
2009-10	1.35	0.11	0.04
2010-11	1.29	0.1	0.02
2011-12	1.19	0.13	0.02
2012-13	0.99	1.26	0.19

Source: Annual report
Interpretation
A current ratio of 2:1 is considered as ideal one. During the study period, the company has maintained an average of 1.3. The current ratio is less for the study period. Liquid ratio is an indication that the firm is liquid and can meet its current or liquid liability as and when they become due. The ideal ratio is 1:1.the liquidity position of the company is not satisfactory on an average the company maintains 0.15 The ideal ratio of absolute liquid ratio is 0.5:1.On an average the absolute liquid ratio for the study period is 0.15, is being less than the ideal ratio. Hence the short-term solvency position of the company is not satisfactory.

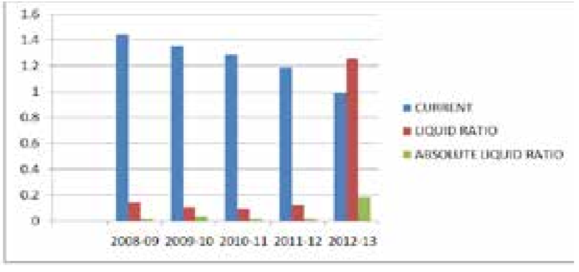

TABLE 2

INVENTORY TURNOVER
(IN CRORES)

YEARS	INVENTORY TURNOVER RATIO	INVENTORY CONVERSION
2008-2009	8 times	41 days
2009-2010	9 times	41days
2010-2011	9 times	41 days
2011-2012	9 times	41days
2012-2013	9 times	46 days

Source: Annual report
Interpretation
Inventory turnover ratio of the firm during the year 2008-2009 is 8 times and it has increased to 9times for the year 2009-2010. In the year 2010-2011 and 2011-2012 it has remained constant. On an average the firm is able to convert their stock into sales by 9 times. The firm has maintained a good sales strategy, so inventory turnover ratio of the company is satisfied.

The conversion period of the concern during year 2008-2009 is 41days and it has been remaining constant till the year 2011-2012, and in 2012-2013 it has slightly increased to 46 days. Now the firm's conversion period on an average is 41 days. The firm is able to dispose the stock frequently. So it is quite satisfactory.

TABLE 3

DEBTORS TURNOVER
(IN CRORES)

YEARS	DEBTOR TURNOVER	AVERAGE COLLECTION PERIOD
2008-2009	94 times	8 days
2009-2010	93 times	7 days
2010-2011	98 times	6 days
2011-2012	84 times	4 days
2012-2013	82 times	4 days

Source: Annual report
Interpretation
During the study period the firm's debtor's turnover ratio is 94 times. The debtors are able to pay their debt on time. So the debtor turnover ratio is satisfactory.

Average collection period of the firm during the year 2008-2009 is 8 days and has decreased to7 days and in last 3 years it has decreasing trend. On an average the collection period during the study period is 5.8 days. So firm is able to collect their debts very frequently. So the average collection period is highly satisfactory.

TABLE 4

LEVERAGE RATIOS
(IN CRORES)

YEARS	DEBT-EQUITY RATIO	FUNDED DEBT TO TOTAL CAPITALIZATION
2008-2009	0.001	0.17 %
2009-2010	Nil	Nil
2010-2011	Nil	Nil
2011-2012	0.762	43%
2012-2013	0.583	37%

Source: Annual report
Interpretation
The above table shows the debt equity ratio of the company which ranges from 0.001to 0.583 it has an increasing trend which is not the favorable position, as the increasing outsiders fund will control the profit of the company.

The above table shows the funded debt to total capitalization of the firm which ranges from 0.17 % to 37%. The ratio of 37% is quite low. The company has not relied on outside sources for raising long-term funds. Hence the funded debt to total capitalization of the firm is satisfactory.

TABLE 5

SOLVENCY RATIOS
(IN CRORES)

PROPRIETORY RATIO	SOLVENCY RATIO	FIXED ASSET TO NET-WORTH RATIO
0.35	0.31	1.58
0.30	0.30	1.53

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0.36	0.36	1.18
0.30	0.49	1.23
0.30	0.44	1.78

Source: Annual report

Interpretation

A high proprietory ratio is always expected by creditors of the company. The creditors who provide financial assistance to the companies would be interested in good long term. Solvency position of the company from the table it is understood that the ratio is in a decreasing trend during the study period. Hence the term solvency position is not satisfactory.

The solvency ratio of the firm during the year 2008-2009 is 0.31. During the year 2009 it has decreased to 0.30 then it further increased and then in2012 it has decreased. The total liabilities are decreasing and the total asset are increasing hence the solvency ratio is good.

Fixed asset to net worth ratio of the firm is 1.58in 2009and there is a continuous decreasing up to 1.18in 2011.Then in the 2012 and2013 has increasing trend to 1.23 and 1.78 respectively. The fixed asset is increasing continuously so the fixed asset to net worth ratio maintained in all the five years is very sufficient and satisfactory. On an average 1.46% of owner funds have been invested in fixed asset.

Finding

During the study period the current ratio, liquid ratio, absolute ratio is not satisfactory. So the company has to increase its current assets to satisfy the short-term solvency position of the concern.

During the study period inventory turnover ratio, conversion period, debtor's turnover ratio, average collection period is satisfactory.

During the study period the funded debt to total capitalization, solvency ratio and fixed asset to net worth ratio is satisfactory. Debt equity ratio and proprietory ratio is not satisfactory. So the company has to take initial steps to improve their shareholders fund and outsider's funds.

Conclusion

This was an opportunity to study the "financial solvency of nestle". In everyday business, finance is playing an important role. It is a main stream of every business organization. The company short-term liquidity position was not satisfactory. And the long term solvency position and the operational efficiency of the firm are quite good. Steps need to be taken to stabilize the overall financial position of the company.