ORIGINAL RESEARCH PAPER

Commerce

POSITION STATEMENT ANALYSIS - A CASE STUDY OF NESTLE INDIA LTD.

KEY WORDS: Debt, Equity, Solvency position

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ABSTRACT

The Balance Sheet is always considered as the vital part of any business organization. The position statement is mandatory for all types of the organization as per various acts & enactments. The asset of the business organization reflects the economic resources which the business organization has, whereas the liability reflects the obligations of the organization. The balance sheet provides information about the classification and value of assets as well as it provides information whether the organization has sufficient assets to pay off the external liabilities or not. It also reflects whether the organization is economically viable as it reflects the stability position of the organization. In this research paper we have used fixed assets turnover ratio, total assets turnover ratio, solvency ratio & debt equity ratio for judging and assessing the efficiency with which the fixed assets are utilized, judging the efficiency with which the total assets are used, finding the correlation between the total assets & total outsiders liabilities & measuring the extent to which debt financing has been used by this business enterprise from 2011-12 to 2015-16.

OBJECTIVES OF STUDY

The study fulfils the following objectives:

(i) To study and assess the fixed assets, total assets, total liabilities and debt & equity of Nestle India Ltd
(ii) To identify & study the facts responsible for changes in position statement of Nestle India Ltd

HYPOTHESIS

The following null hypothesis is framed for testing:

Ho: There is no significant difference in the solvency position of Nestle India Ltd during the period of study.

LIMITATIONS

- Only monetary information is considered the non monetary information are ignored.
- For this study some data have been grouped and sub grouped,
- Non-availability of sufficient data & literature is also a limitation of this study .
- This study is based on the published annual reports hence there is no primary collection of data.
- The conclusion drawn on the basis of ratio analysis can have different opinions about the fixed assets turnover ratio, total assets turnover ratio, solvency position, debt equity position etc.
- Ratio analysis requires knowledge of financial statement accounting methods & policies and the formulas etc. Layman cannot understand the usefulness of the ratio

Research Design

The research design is very essential for the smooth conduction of various research operations so that maximum information could be taken out effectively & efficiently to carry out the research study. Research design is such an arrangement whereby the collection and analyses of data is done in such manner that aims to achieve the research purpose . Hence, a research design specifies the methods and procedures for acquiring the information which is needed for conducting the study. Ratio analysis a method through which the analysis and interpretation of financial statement is done. It is a technique which helps in the process of decision making and this can be done by establishing and interpreting various ratios. Ratio analysis helps in judging the strengths and the weakness of the organisation and through analysis the weakness can be converted into the strengths. Calculations of appropriate ratios helps the researcher to get the desired result. Thus the analyst has to choose the appropriate ratio so that the objectives of the analysis can be met. In this study the following ratios have been used which includes the fixed assets turnover ratios, total assets turnover ratio, debt equity ratio, solvency ratio etc.

POSITION STATEMENT ANALYSIS OF NESTLE INDIA LTD
FIXED ASSETS TURNOVER RATIO

The fixed assets turnover ratio helps in judging the utilization of fixed assets by the organization and through this ratio the efficiency with which the fixed assets are utilized can be assessed. It is generally stated that the higher the ratio, higher would be the efficiency of the fixed assets and visa verse. The formula for calculating fixed assets turnover ratio is:

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

TABLE NO. 1: Statement Showing fixed assets turnover ratio (Rs. In Millions)

Year	Net sales	Fixed Assets	fixed assets turnover ratio
2011-12	83022.6	36738.0	2.26
2012-13	90619.0	40125.5	2.25
2013-14	98062.7	38558.3	2.54
2014-15	81232.7	36008.5	2.25
2015-16	91592.8	35269.8	2.59
Mean	88905.96	37340.2	
SD	6123.59	15845.10	
CV	6.88	42.43	
Average Growth	10.32%	-4.163%	

Source: Compiled from Annual report of the Nestle India Limited

Interpretation

As per the first table the fixed assets turnover ratio is showing a mixed trend during the study period. Initially it was at 2.26 times and it got decreased to 2.25 times by 2012-13. There was a good increase in this ratio in the next year as it got increased to 2.54 times by 2013-14. In the last year of the study period it was the highest at 2.59 times . The co-efficient of variance of net sales were at 6.88 & fixed assets were at 42.43. The average growth of net sales & fixed assets reflected at 10.32% and at -4.163 %.

TOTAL ASSETS TURNOVER RATIO

The total assets turnover ratio helps in knowing the utilization of the total assets by the organization as well as it helps in knowing the efficiency with which the total assets is utilized. If this ratio is low it indicates inefficiency of utilization of total assets and visa-versa.

The Total Assets turnover ratio is calculated by the following formula.

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

TABLE NO. 2: Statement Showing Total assets turnover ratio (Rs. In Millions)

Year	Net sales	Total assets	Total assets turnover ratio
2011-12	83022.6	51639.2	1.60
2012-13	90619.0	63142.7	1.43

2013-14	98062.7	58195.0	1.68
2014-15	81232.7	60804.6	1.33
2015-16	91592.8	68059.7	1.34
Mean	88905.96	60368.24	
SD	6123.59	30727.60	
CV	6.88	50.90	
Average Growth	9.35%	24.12%	

Source: Compiled from Annual report of the Nestle India Limited

INTERPRETATION

As per the second table the total assets turnover ratio is showing a mixed trend.. Initially it was at 1.60 times and it got decreased to 1.43 times by 2012-13. There was an increase in this ratio in the next year and it reached to 1.68 times by 2013-14. Last two years reflects decrease in this ratio at 1.33 times & 1.34 times respectively. The co-efficient of variance of net sales were at 6.88 & total assets were at 50.90. The average growth of net sales & total assets reflected at 9.35% and at 24.12%.

DEBT –EQUITY RATIO

The Debt –Equity ratio is calculated to measure the relative claims of outsiders and the owners against the firm's assets. The relationship between the external equities and the internal equities is found through this ratio. This ratio helps in measuring the extent to which debt financing has been used in a business enterprise.

Debt equity ratio = Debt /Equity.

$$\text{Debt} - \text{Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

TABLE NO. 3: Statement Showing Debt-Equity Ratio (Rs. In Millions)

Year	Debt	Equity	Debt equity ratio
2011-12	22370.8	17984.1	1.244
2012-13	25983.4	23687.5	1.097
2013-14	16268.4	28372.1	0.574
2014-15	17868.9	28174.4	0.635
2015-16	21595.7	30137.0	0.717
Mean	20817.44	25671.02	
SD	3437.83	4393.87	
CV	16.51	17.11	
Average Annual Growth	-3.46%	67.57%	

Source: Compiled from Annual report of the Nestle India Limited

INTERPRETATION

As per the third table the debt equity ratio of this organization seems to be decreasing. Initially it was at 1.24:1 and it got decreased to 0.574:1 by 2013-14. There was a slight increase in this ratio as it was at 0.635:1 by 2014-15. There was a slight increase in this ratio at 0.717:1 in the year 2015-16. The co-efficient of variance of debt were at 16.51 & equity were at 17.11. The average growth of debt & equity reflected at -3.46% and at 67.57%.

SOLVENCY RATIO

The solvency ratio determines the interrelationship between the total assets & total outsiders liabilities. If this ratio is high this means more satisfactory is the solvency position of the organization and in case of lower ratio it indicates less stability of long term solvency position of the organization.

$$\text{Solvency Ratio} = \frac{\text{Total Assets}}{\text{Total Outsider's Liabilities}}$$

TABLE NO. 4: Statement Showing Solvency Ratio (Rs. In Millions)

Year	Total Assets	Total outsiders liabilities	Solvency Ratio
2011-12	51639.2	33655.1	1.535
2012-13	63142.7	39455.2	1.601
2013-14	58195.0	29822.9	1.952
2014-15	60804.6	32626.2	1.864
2015-16	68059.7	37922.7	1.795
Mean	60638.24	25671.02	
SD	5439.95	3526.36	
CV	9.01	10.16	
Average Growth	31.79	11.25%	

Source: Compiled from Annual report of the Nestle India Limited

INTERPRETATION

As per the fourth table the solvency ratio of this organization seems to be decreasing. Initially it was at 1.53 :1 and it got increased to1.60 : 1 by 2012-13. There was a further increase in this ratio as it was at 1.95: 1 by 2013-14. However in the last year it got decreased to 1.79: 1. The co-efficient of variance of total assets were at 9.01 & equity were at 10.16. The average growth of debt & equity reflected at 31.79% and at 11.25%.

TESTING OF HYPOTHESIS

In this study the hypothesis has been analyzed by t-test as the significance of data can be analyzed by means of statistical tools. Hence correlation & t- test have been applied in this study.

Null hypothesis H_{01} There is no significant difference in the **solvency position of Nestle India Ltd for the years 2011-12 to 2015-16 Interpretation of t-test**

t = 1.268**, $t_{0.05}$ = 2.132**
$t < t_{0.05}$

Interpretation

Since the calculated value is less than the table value hence we accept the null hypothesis which means that there is no significant difference in the solvency position of NESTLE INDIA LTD. during the study period 2011-12 to 2015-16

Suggestions

- The organisation should try to effectively utilize its total assets as it is reflecting a mixed trend hence the organisation should have better policies to increase its turnover and utilize its assets.
- The organisation should improve the composition of the total assets should try to reduce its composition of current liabilities to improve its solvency position,
- For the betterment of solvency the organisation should try to reduce its outsiders liabilities as it had shown a decreasing trend during the study period .
- The organisation should try to improve its debt equity position of the organization as it was less than 1: 1 during the last three years study period.
- The fixed assets of the organisation were properly utilized as the ratio was increasing during the last two years during the study period however organisation should try to utilize its fixed assets more efficiently .

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