

**A REPORT ON** **FINANCIAL STATEMENT ANALYSIS OF NESTLE GROUP OF INDUSTRIES**



**UNIVERSITY OF BARISHAL**

**Report ON**

**FINANCIAL STATEMENT ANALYSIS OF NESTLE GROUP OF INDUSTRIES**

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**Company Overview**

Nestle SA (Nestle) is a manufacturer and marketer of food products and beverages. The company's product portfolio comprises baby food, bottled water, cereals, chocolates and confectionery, coffee, and culinary products. It also provides plant-based foods, chilled and frozen foods, dairy products, nutritional products, ice cream, and pet care products. Nestle markets its products under the Aero, Purina Alpo, Milkybar, Nestle Ice Cream, Cerelac, Nescafe, Nespresso, Nido, Perrier, S.Pellegrino, Acqua Panna, Nestea, Milo, Maggi, Buitoni, Cailler, Movenpick, Purina, Boost, Gerber, and Kit Kat brand names. The company has business presence across Asia, Oceania, the Americas, Europe, the Middle East, and Africa. Nestle is headquartered in Vevey, Waadt, Switzerland.

R&D Overview

Nestle manages R&D operations through a network of R&D centers with 4,100 scientists and researchers globally. Its R&D arm focuses on developing innovative products to meet the evolving needs of its customers. The company’s research activities aim to intensify research in high-growth categories, such as early-life and therapeutic nutrition, alternative proteins, and coffee and systems technology. It collaborates with several universities and colleges, such as EpiGen Consortium, Ecole Polytechnique Federale de Lausanne?(EPFL), ETH Zurich, Technical University of Munich, Future Food Initiative, and Imperial College London, to drive its innovation efforts. It also operates over 23 R&D centers across the world.

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**Nestlé’s Mission**

Nestlé’s mission statement is **"*to enhance the quality of life and contribute to a healthier future.*"** This mission reflects the commitment of the brand to creating a healthier and happier world, and it is this that has positioned Nestlé as more than just a corporation that manufactures food products; instead, it shows it as a proactive brand with a genuine interest in societal wellbeing.

At its core, Nestlé's mission focuses on two primary objectives: enhancing the quality of life and contributing to a healthier future. The first objective is accomplished by producing quality food products that not only meet but also exceed consumers' expectations in terms of taste and nutritional value. Nestlé's extensive portfolio, comprising thousands of products across several categories, bears testament to this commitment.

Their second objective of contributing to a healthier future reflects Nestlé's dedication towards preventative health care. The company has heavily invested in nutrition research to create products that are beneficial for consumers' health. This includes reducing sugars, sodium, and unhealthy fats in their products while enriching them with beneficial nutrients like whole grains, fruits, and vegetables.

Furthermore, this part of their mission signifies Nestlé's commitment to environmental sustainability as a means to contribute to a healthier future. From sustainable sourcing practices to striving for zero waste, the company incorporates eco-friendly practices across its business operations.

Finally, the mission statement does not solely revolve around what the company can attain. Rather, it is about what they can give back to society. Nestlé has made a profound impact on communities worldwide through various initiatives that align with their mission, such as providing access to clean water, promoting responsible farming practices, and championing nutrition education.

**Nestlé’s Vision**

Nestlé's vision statement is **"*to be a leading, competitive, Nutrition, Health and Wellness company delivering improved shareholder and societal value.*"** This vision clearly outlines Nestlé’s ambition to not only be a frontrunner in the industry but also to make a difference in society, all while providing value to its shareholders.

Becoming a leading, competitive Nutrition, Health, and Wellness company signifies Nestlé’s aspiration to elevate its brand beyond just a food and beverage corporation. They strive to be at the forefront of providing nutritionally balanced products that promote wellness and healthy lifestyles. Their vision goes beyond mere words as evident in their investments in research and development, which drive product innovations focused on nutritional improvements. They also emphasize on continuously improving their existing product line, ensuring they adhere to the highest nutritional standards.

Their aspiration to become a "leading" and "competitive" company points towards their dedication to continuous growth and market expansion. Nestlé endeavors to remain a dominant player in the global food and beverage industry through innovation, diversification, and expansion. This constant strive for leadership and competitiveness is manifested through their operations in over 189 countries and their wide-ranging product portfolio that caters to various consumer needs and preferences.

"Delivering improved shareholder value" affirms Nestlé's commitment to its investors. The company seeks to provide sustainable financial performance and reliable returns to its shareholders. It does so by pursuing profitable growth, improving operational efficiency, and making strategic investments that offer long-term benefits.

Executive Summary

**N**estlé is world’s largest health, nutrition and wellness company with a mission of “Good Food, Good Life” which actually drives the company to provide consumers with the best tasting and most nutritious food choices in a wide range of food and beverage categories and eating occasions. Although globally it is twice in size of its nearest FMCG (fast moving consumer goods) competitors, in Bangladesh its journey is comparatively new. Nestlé Bangladesh Limited, a wholly owned subsidiary of Nestlé S.A., started its commercial production in 1994 .Today Nestlé Bangladesh Limited is strongly positioned to grow through its policy of constant innovation and renovation, concentrating on its core competencies and commitment to high quality, with the aim of providing the best quality food to the people of Bangladesh.

The report is based on a working project and the aim of the report is to figure out how to develop Working Capital Management of Nestlé Bangladesh Limited .This report is designed in five major chapters. Initially the opening words about the report were described in the first segment titled “Introduction”. The next segment “Company Profile” contains the history of Nestlé, Product/service offerings, Operational network organogram, Nestlé Bangladesh Ltd. and Visions & mission for the future.

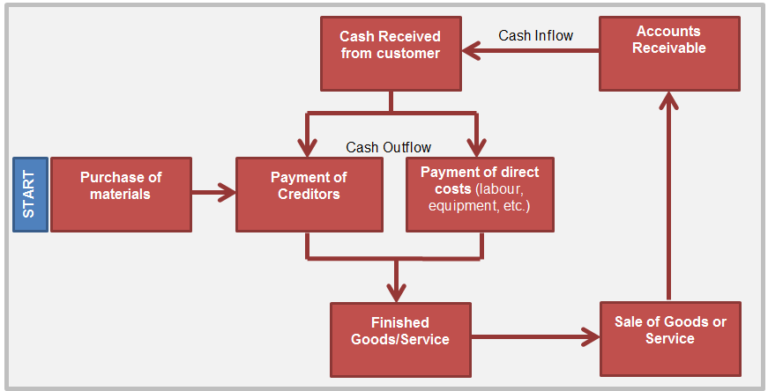
Next chapter is about my job and major responsibilities; where I have tried to describe my job and some of its drawbacks. Then my analysis and finding of my assign project named how to develop Working Capital Management of Nestlé Bangladesh Limited (NBL). Here I want to mention one drawback that is NBL is not listed in Bangladesh stock exchange. Therefore I used all financial data of Nestlé India Limited which is also a part of Nestle S.A.

The last & final part contains the concluding part. Before drawing any conclusion based on this report it may be noted that there might be lack in data, but still it may be useful for designing any further study.

why is working capital necessary?

Proper management of [working capital](https://www.investopedia.com/terms/w/workingcapital.asp) is essential to a company’s fundamental financial health and operational success as a business. A hallmark of good business management is the ability to utilize [working capital management](https://www.investopedia.com/terms/w/workingcapitalmanagement.asp) to maintain a solid balance between growth, profitability and liquidity. A business uses working capital in its daily operations; working capital is the difference between a business's [current assets](https://www.investopedia.com/terms/c/currentassets.asp) and current liabilities or debts. Working capital serves as a metric for how efficiently a company is operating and how financially stable it is in the short-term. The working capital ratio, which divides current assets by [current liabilities](https://www.investopedia.com/terms/c/currentliabilities.asp),1 indicates whether a company has adequate cash flow to cover short-term debts and expenses.

The lifeblood of the firm

::

Data Table of Nestle group of industries:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year  Name | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Current Assets | 32.46B | 37.16B | 30.63B | 32.53B | 32.72B | 41.92B | 35.90B | 36.34B | 42.95B | 36.74B |
| Current Liabilities | 35.53B | 36.00B | 34.68B | 38.09B | 36.64B | 36.64B | 41.89B | 42.37B | 43.79B | 41.89B |
| Long Term Debt | 11,187 | 13,565 | 12,073 | 11,261 | 16,192 | 26,276 | 23,282 | 29,788 | 39,915 | 45,500 |
| Total Assets | 130,017 | 146,034 | 129,039 | 133,919 | 132,505 | 140,084 | 128,772 | 132,288 | 152,235 | 141,657 |
| Sales | 99,717 | 100,528 | 92,709 | 91,160 | 91,590 | 93,805 | 93,469 | 90,321 | 95,701 | 99,320 |
| Account Receivable | 277 | 976 | 336 | 47 | 56 | 559 | 1,151 | 38 | 902 | 336 |
| Cost of Goods Sold | 51,936 | 52,037 | 46,551 | 44,875 | 45,655 | 47,102 | 46,950 | 45,833 | 49,747 | 54,224 |
| Inventory | 9,048 | 10,037 | 8,485 | 8,530 | 9,209 | 9,329 | 9,404 | 10,774 | 13,110 | 15,738 |
| Income After Taxes | 9,911 | 7,552 | 8,824 | 8,237 | 6,823 | 9,766 | 11,980 | 11,260 | 9,349 | 8,966 |

**Net working capital**

We know that net working capital = Total current Asset – Total current liability

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total current Asset | Total current liabilities | Net working capital |
| 2013 | 32.46 | 35.53 | -3.07 |
| 2014 | 37.16 | 36.00 | 1.16 |
| 2015 | 30.63 | 34.68 | -4.05 |
| 2016 | 32.53 | 38.09 | -5.56 |
| 2017 | 32.72 | 36.64 | -3.92 |
| 2018 | 41.92 | 36.64 | 5.28 |
| 2019 | 35.90 | 41.89 | -5.99 |
| 2020 | 36.34 | 42.37 | -6.03 |
| 2021 | 42.95 | 43.79 | -0.84 |
| 2022 | 36.74 | 41.89 | -5.15 |

Working capital can be negative if a company's [current assets](https://www.investopedia.com/terms/c/currentassets.asp) are less than its current liabilities. We can see the above data table From 2013 to 2022 most of the year’s net working capital of Nestle group of industries are negative. Negative working capital can be advantageous for a company that sells products or services for cash but pays its suppliers on credit. In contrast, having a very high level of working capital may not benefit the company, as it may result in missed investment opportunities for its available cash. On the other hand, Positive working capital indicates that a company can fund its current operations and invest in future activities and growth. High working capital isn’t always a good thing. It might indicate that the business has too much inventory, not investing its excess cash, or not capitalizing on low-expense debt opportunities.

**Current Ratio**

The current ratio is a [liquidity ratio](https://www.investopedia.com/terms/l/liquidityratios.asp) that measures a company’s ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the [current assets](https://www.investopedia.com/terms/c/currentassets.asp) on its balance sheet to satisfy its current debt and other payables.

The formula for calculating the current ratio is as follows:

Current Ratio = Current Assets / Current Liabilities

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **Current Ratio** | 0.91 | **1.03** | 0.88 | **0.85** | **0.89** | **0.95** | **0.86** | **0.86** | **0.98** | **0.88** |

A good current ratio is between 1.2 to 2, which means that the business has 2 times more current assets than liabilities to covers its debts. A current ratio below 1 means that the company doesn’t have enough liquid assets to cover its short-term liabilities. A ratio of 1:1 indicates that current assets are equal to current liabilities and that the business is just able to cover all of its short-term obligations. We see here that *Nestle group of industrie*s Current ratio was 0.91 which is below strandard.Only In 2014 the current ratio was above 1 and that is 1.03.Beside this, another 9 years ratio was below 1which indicate that the company doesn’t have enough liquid asset to cover its short term obligations.

**Inventory Turnover Ratio**

Inventory turnover is a ratio showing how many times a company has sold and replaced inventory during a given period. It measures the activity, or liquidity of a firm's inventory. The higher the turnover, the more liquid the asset. The resulting turnover is meaningful only when it is compared with that of other firms in the same industry or to the firm's past inventory turnover. It is calculated as:

Inventory Turnover =Cost of goods sold/Inventory

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| Inventory Turnover | 5.740053 | 5.184517 | 5.48627 | 5.260844 | 4.95765 | 5.048987 | 4.992556 | 4.254037 | 3.794584 | 3.445419 |

***Description***

Inventory turnover measures how often a company replaces inventory relative to its cost of sales. Generally, the higher the ratio, the better. For most industries, the ideal inventory turnover ratio will be between 5 and 10, meaning the company will sell and restock inventory roughly every one to two months. In above graphical expression we see that, Nestle group of industries Inventory turnover is above 5 times from 2013 to 2016 & 2018.The remaining 5 years turnover below 5.

A low inventory turnover ratio might be a sign of weak sales or excessive inventory, also known as overstocking. It could indicate a problem with a retail chain’s merchandising strategy, or inadequate marketing

**Year to Year sales Growth**

Year over year growth measures how well your business is doing this year compared to how well you were performing at the same time in the previous year. The Formula is:

Year to year sales = (current year sales -last year sales)/last year sales

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| Year to year sales growth |  | 0.008133 | -0.07778 | -0.01671 | 0.004717 | 0.024184 | -0.00358 | -0.03368 | 0.059565 | 0.037816 |

***Description***

Year to year sales ratio of Nestle group of industries was positive in 2014,2017,2018,2021 &2022. Year to year sales growth was collapse too much that the balance fall in negative in 2015.According to that 2016,2019 and 2020 the amount of loses was lower than 2015. So, We can say that the company passed a very bad time in 2015 and the Highest profit the company gained in 2021.

**Debt Ratio**

**A debt ratio** helps to determine how financially stable a company is and is expressed as the ratio of total debt to total assets. Debt ratio that’s less than 1 or 100% is considered ideal, while a debt ratio that’s greater than 1 or 100% means a company has more debt than assets. The formula of ratio is-

**Debt Ratio =Total debt / total asset**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **Debt Ratio** | 0.086043 | 0.092889 | 0.093561 | 0.084088 | 0.122199 | 0.187573 | 0.1808 | 0.225175 | 0.262193 | 0.321198 |

***Description***

The above graph show the last 10 years debt ratio of Nestle group of Industries .From 2013 to 2022 the ratio was less than 1 which means the company doing well & Nestle group of industries considered as ideal debt ratio. So, we can say that the Nestle group of industries are financially stable.

**Return on Assets**

Current and historical return on assets (ROA) values for Nestle SA (NSRGY) over the last 10 years. Return on assets can be defined as an indicator of how profitable a company is relative to its total assets. Calculated by dividing a company's operating earnings by its total assets.

ROA=Earning after tax/Total asset

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **ROA** | 0.076228 | 0.051714 | 0.068382 | 0.061507 | 0.051492 | 0.069715 | 0.093033 | 0.085117 | 0.061412 | 0.063294 |

Description

An ROA of 5% or better is typically considered good, while 20% or better is considered great. In general, the higher the ROA, the more efficient the company is at generating profits

Nestle group of industries ROA was 5 to 9% last 10 years which indicate good position . Return on assets is a [profitability ratio](https://www.investopedia.com/terms/p/profitabilityratios.asp) that provides how much profit a company can generate from its assets. Nestle group of industries management is in earning a profit very efficiently from their economic resources or assets on their [balance sheet.](https://www.investopedia.com/terms/b/balancesheet.asp)

FINANCING OF WORKING CAPITAL

**Introduction:**

After determining the level of working capital, a firm has to decide how it is to be financed.

In the company, it was financing the working capital from the following four common sources. They are,

**SHARES**:

The company has issued the equity shares for raising the funds. The Equity shares do not have any fixed commitment charges and the dividend on these shares is to be paid subject to the availability of sufficient funds. These funds have been injected from the company’s own personal resources and from the members.

**TRADE CREDIT:**

The trade credit refer to the credit extended by the suppliers of goods in the normal course of business. The firm has a good relationship with the trade creditors. So that suppliers send the goods to the firm for the payment to be received in future as per the agreement or sales invoice. In this way, the firm generates the short-term finances from the trade creditors. It is an easy and convenient method to finance and it is informal and spontaneous source of finance for the firm.

**3. BANK CREDIT:**

Commercial banks play an important role in financing the trade & industry Bank provides

Short-term, medium term & long term finance to an industrialist or a business man.

* + - 1. **Loans:** Nestle Bangladesh has taken loan from the commercial bank for working capital requirement for a certain period at certain interest rate.

**2. Cash Credit / Overdrafts:** Under cash credit/overdraft from/arrangement of bank finance, the bank specifies a determined borrowings/credit limit. The borrower can draw/borrow up to the stipulated credit/overdraft limit. Within the specified limit/ line of credit, any number of drawls/drawings are possible to the extent of his requirement periodically. This form of financing of working capital is highly attractive to the borrowers because, firstly, it is flexible in that although borrowed funds are repayable on demand, banks usually do not recall cash advances/roll them over and, secondly, the borrower has the freedom to draw the amount actually outstanding. However, cash credit/overdraft is inconvenient to the banks and hampers credit planning.

**4.CUSTOMER ADVANCES:**

The company follow the practice of collecting advance money from the customers as soon as orders are placed and before the actual delivery of the goods. Such an advance received from the customers constitutes one of the short-term sources of finance.

Certain % of the price of the goods to be sold to the customers is collected in the of an advance. Seller can utilize the advance money so collected for meeting these urgent financial obligations.

DETERMINANTS OF WORKING CAPITAL REQUIREMENTS

In order to determine the amount of working capital needed by the firm a number of factors have to be considered by finance manager. These factors are explained below.

Nature of Business:

The Nature of the business effects the working capital requirements to a great extent. For instance public utilities like railways, electric companies, etc. need very little working capital because they need not hold large inventories and their operations are mostly on cash basis, but in case of manufacturing firms and trading firms, the requirement of working capital is sufficiently large as they have to invest substantially in inventories and accounts receivables .

Cash Forecasting of Nestle group of industries

The cash forecast is an estimation of the flows in and out of the firm's cash account over a particular period of time, usually a quarter, month, week, or day. The cash forecast is primarily intended to produce a very useful piece of information: an estimation of the firm's borrowing and lending needs and the uncertainties regarding these needs during various future periods.

Cash forecasting is extremely important to most firms. It enables then to anticipate periods of surplus cash and periods where financing will be necessary . This anticipation is the reason that cash forecasts are generated Anticipation enables the firm to plan much more effectively for investment and financing, and via this planning, produce superior returns. That’s why every manufacturing company forecast cash.

Why forecast cash flow?

Without doubt, [cash flow forecasting is a critical task](https://realbusiness.co.uk/cash-flow-not-profit-should-be-your-top-focus) that every manufacturer should undertake, especially in these current times.

, cash flow forecasting allows you to identify potential shortfalls in cash balances in advance and predict whether your business has sufficient funds to pay suppliers and employees.

With cash flow forecasting you can also spot problems with customer payments and see how quickly your customers are paying their invoices. Poor cash flow is generally the single largest reason for companies going out of business.



### ***Identifying potential problems***

### Cash flows can be unpredictable and any related issues can cause a business to fail. Planning helps businesses foresee obstacles, so it doesn’t take them by surprise.

**Example:** It’s easier to keep track of trends in overdue payments if the NGI knows who the late payers are each time. One can assess the impact on the bottom line and take steps to curb this issue.

### ***Taking preventive steps***

Forecasting lets businesses to gain a clear view of future cash requirements. It can tell you if your business has negative or positive cash flow at a given time.

**Example:** Keeping the cash flow shortage in mind, Nestle group of industries can negotiate better terms with suppliers, accelerate collection from customers, or even prepare to draw on a line of credit from the bank.

### ***Improving cash management***

Different businesses have different cash-related pain points. A cash flow forecast helps a business keep track of the inflow and outflow of cash.

**Example:** A manufacturing enterprise like NGI might find it difficult to keep track of cash spent across many different operations. The costs could stem from building new products, sourcing raw materials, labor, machinery, short-term contracts – all these lead to cash outflow. In contrast, service-based companies might struggle to keep track of invoices and timely payments. Maintaining forecast vs. actual scenarios can help gain an in-depth understanding of the company’s cash position and overall financial health.

### ***Planning for business growth***

Forecasts can help plan a company’s future trajectory. Decision makers can have a headline view of cash reserves and make decisions on credit, investments and other such opportunities.

**Example:** If NGI foresees a cash deficit, this may inhibit their ability to fund other activities such as marketing or salary playouts. Here, a forecast can help make the decision between whether growth should be accelerated or if the current path of the business should be sustained.

***Providing assurance***

**Cash flow forecasts** give investors an opportunity to review the financial health of a company. It provides stakeholders clarity about the future and the actions needed to generate results.

**Example:** If they’re seeking funding, Their lender will want to see Their forecast to determine their future ability to repay the loan.

**How do you estimate your sales revenue for cash flow forecasting?**

## Step 1: Gather your data

## Step 2: Estimate your sales revenue

## Step 3: Calculate your costs of goods sold

## Step 4: List your operating expenses

## Step 5: Create your cash flow statement

## Step 6: Analyse and adjust your cash flow forecast

## **Cash Flow Challenges in the Manufacturing Industry**

Nestle group of industries is a manufacturing industry. Manufacturers have many moving parts that allow them to stay in operation. A single wasted expenditure can lead to low cash flow. The most common challenges these organizations face include:

* ***Stock forecasting***is one of the areas where manufacturers can cause liquidity issues for their business. NGI may overstock components; if sales slow, they’ll have inventory that sits and can’t use the cash for growth initiatives.
* ***Customer credit***may attract NGIs initial customers but also cause a cash flow crunch. There’s always a risk that credit extensions can lead to non-payment.
* ***Slow invoice payments*** go along with customer credit perfectly. If NGIs invoices aren’t paid promptly or late, they’ll have potential cash flow problems because they’re owed money for completed work.

Of course, other cash flow problems can arise. Many manufacturers invest too much money into growth and end up low on cash flow because they invest too much of their capital into development.

So, Nestle group of industries must have a comprehensive forecast that alerts them to potential:

* Cash flow issues
* Cash flow surpluses

If they(NGI) predict a surplus or have more than enough liquidity, they(NGI)can invest in their business correctly

Analyzing Nestle's cash management through the Miller-Orr and Baumol models would require access to specific financial data and detailed financial statements, which I do not have access to beyond my knowledge cutoff date in September 2021. However, I can provide a general overview of how these models work and how they might be applied to a company like Nestle.

1. \*Miller-Orr Model\*:

- The Miller-Orr Model is used to determine the optimal cash balance that a company should maintain to minimize the costs associated with holding too much or too little cash.

- Factors considered include the transaction cost of transferring funds, the opportunity cost of holding cash, and a predetermined acceptable lower limit (Z) and upper limit (H) for cash balances.

- Nestle would need to estimate its transaction costs, the interest rate it could earn on its excess cash, and set appropriate lower and upper limits based on its operational needs and risk tolerance.

- The model helps Nestle determine when to invest excess cash and when to replenish cash reserves to maintain an optimal balance.

2. \*Baumol Model\*:

- The Baumol Model is another approach to cash management and aims to minimize the total cost of holding cash and making transactions.

- It considers the firm's cash requirements, the cost of placing orders or transferring funds, and the opportunity cost of holding cash instead of investing it.

- Nestle would need to estimate its cash disbursement patterns, the cost of each transaction, and the interest rate it could earn by investing excess cash.

- The model helps Nestle determine the optimal order size or cash transfer amount and the frequency at which these should occur.

To perform a detailed analysis of Nestle's cash management using these models, you would need access to Nestle's financial data, including cash flows, transaction costs, and interest rates. You would then apply the formulas of these models to calculate the optimal cash balances, order sizes, or transfer frequencies.

It's important to note that companies like Nestle may have sophisticated cash management strategies that involve a combination of various models and techniques to optimize their cash positions and ensure liquidity while minimizing costs

Analyzing Nestlé's terms of sale decisions in conjunction with its working capital management provides a deeper understanding of how the company optimizes its operations for efficiency and profitability. Here's how you can approach this analysis:

Accounts Receivable (AR) Policy:

Examine Nestlé's credit policies for customers. Do they offer favorable credit terms or discounts to encourage prompt payment?

Analyze the average collection period to understand how quickly Nestlé converts its credit sales into cash.

Assess the effectiveness of Nestlé's credit risk assessment and management in reducing bad debt expenses.

Inventory Management:

Study Nestlé's inventory turnover ratio to assess how efficiently the company manages its inventory.

Evaluate whether Nestlé employs just-in-time inventory practices to reduce carrying costs.

Analyze how Nestlé deals with perishable goods or seasonal variations in demand in its inventory management decisions.

Accounts Payable (AP) Policies:

Explore Nestlé's supplier payment terms and strategies. Do they negotiate extended payment terms to improve their working capital position?

Assess the impact of Nestlé's AP policies on supplier relationships and the supply chain.

Working Capital Ratios:

Calculate key working capital ratios, such as the current ratio (current assets/current liabilities) and the quick ratio (current assets - inventory/current liabilities). These ratios provide insights into Nestlé's liquidity and short-term financial health.

Monitor changes in these ratios over time to identify trends in working capital management.

Cash Flow Statements:

Review Nestlé's cash flow statements to understand how changes in accounts receivable, inventory, and accounts payable impact its cash flows.

Analyze the operating cash flow to see if Nestlé effectively converts its sales into cash and manages working capital efficiently.

Cash Conversion Cycle:

Calculate the cash conversion cycle, which measures the time it takes for Nestlé to convert its investments in inventory and accounts receivable into cash through sales.

Evaluate whether Nestlé has reduced this cycle over time, indicating more efficient working capital management.

Debt Management:

Analyze Nestlé's debt levels and interest expenses. High debt can strain working capital if interest payments are significant.

Assess Nestlé's ability to refinance debt or access credit facilities if needed to support working capital requirements.

Working Capital Efficiency:

Compare Nestlé's working capital efficiency metrics (e.g., revenue per unit of working capital) with industry benchmarks to gauge performance.

Identify areas where Nestlé may improve its working capital efficiency, such as through better inventory turnover or AR collection practices.

Sustainability and Working Capital:

Consider Nestlé's sustainability initiatives in the context of working capital. Investments in sustainable sourcing and production can impact working capital requirements.

External Factors:

Be aware of external factors like changes in interest rates, inflation, and economic conditions, as these can influence working capital decisions and borrowing costs.

Competition:

Compare Nestlé's working capital management practices with those of its competitors to assess its relative efficiency and effectiveness.

Investor Relations and Financial Reports:

Review Nestlé's investor relations materials, annual reports, and financial disclosures for insights into its working capital management strategies and performance.

**Credit Granting Decision of Nestle group of industries**

Credit Granting Decision is a Procedure of final decision whether to grant credit to the prospective customer or not credit review process is needed to ensure that a business does not grant [credit](https://www.accountingtools.com/articles/credit) to [customers](https://www.accountingtools.com/articles/customer) who are unable to pay. Otherwise, it may incur significant [bad debt](https://www.accountingtools.com/articles/what-is-a-bad-debt.html) losses. The credit department handles all credit reviews. Nestlé group of Industries is a large manufacturing company. It’s have many branches & various kind of product to Produce. So, The company sale their product in cash & also on credit. Before granting credit to the customers the industry’s have to identify that the customer are able to pay or not. Otherwise they have to face bad debt.

**Why Do Nestle Group of Industries(NGI) Grant Credit?**

Let’s examine the purpose of credit granting; then, we can understand how to decide best who to extend credit to or not.

**Advantage to the Customer** –

Extending credit to customers allows them to purchase goods or services from NGI today, and then use their products or services to generate revenue from which they can repay NGI. Instead of borrowing from their bank, they borrow from NGI.

**Advantage to NGIs' Business –**

 If NGI feel their customer is a reasonable risk, then granting credit to them allows NGI to book the sale and add revenue to business. If the customer repays their debt to NGI within the agreed timeline, then everyone wins.

**Credit Decisioning Process for Business Growth**

Credit decisioning in favour of approval means acting as the bank for NGIs customer. [Offering credit can increase revenues](https://pcmcorp.com/credit-control/credit-application-processing-services/) and have many positive outcomes for business:

✪ The company become their preferred vendor, which should result in repeat business.

✪ Offering repayment terms can be a competitive advantage if the industry’s competition does not offer credit terms.

✪ If the customer does not pay within the terms of company’s agreement, the company can collect a reasonable interest charge from their customer for the use of their money.

✪ Being aware of the company risk can enable to offer even better terms to their customers if their seasonal purchases tend to be large. For example, a customer’s usual order is valued at $50,000, but because your customer’s credit rating is excellent, you allow them to purchase $75000 and offer extended terms or perhaps a small discount.

**Information Cost and credit Granting Decision**

In a wealth-maximizing approach to the credit-granting decision, the selling firm evaluates the cash flows that would result from granting credit to a credit applicant versus those that would result if credit were not granted to that applicant. Nestle group of industries collect information in the following way fit granting credit.

***There are several sources of credit information, proceeding from the least costly to the most costly.***

* ***The Nestle group of industries’ Prior Experience with the Customer*** : One of the cheapest and most reliable sources of information about expected future payment patterns is that customer's history of dealings with the seller. If the customer has paid promptly for the last 20 orders, it is very likely that the customer will pay promptly for the twenty-first. To obtain information on the customer's history of payments to the NGI, the credit analyst queries the NGIs data base of prior customer payments.
* ***Credit Agency Ratings and Reports*** :Several firms are in the business of collecting and selling credit-related informtion to the seller. NGI Most of these agencies provide several types of service. They issue ratings based on buyers' financial strength and payments to sellers. They provide reports which may include the buyer's financial statements and the results of an investigation into legal records regarding the buyer's business dealings. They collect and distribute trade clearances, which are lists of amounts owing, amounts past due, and histories of payments by buyers to their trade creditors.
* ***Personal Contact with the Applicant's Bank and Other Creditors*** A more expensive (but very reliable) source of information is the applicant's current creditors and its bank. To obtain such information, the analyst may personally contact these sources to discuss their experiences with the applicant. In this way, the analyst can verify the information in credit agency reports and gain other insights that are not available from these reports. Unfortunately, such an investigation is usually quite time consuming.
* ***Analysis of the Applicant's Financial Statements*** Any credit applicant's ability to pay is in great part dependent on its financial condition. Analysis of this financial condition can thus considerably aid in credit evaluation.
* ***Customer Visit*** One very expensive option in the collection of information is for the credit analyst to visit the applicant. An on-site viewing of the applicant's facilities and discussions with the applicant's management can provide insights and information that cannot be obtained in other ways. For example, the credit analyst can obtain impressions on the competence of the applicant's management and on the physical condition of the applicant's plant, service facilities, and equipment.

**CREDIT GRANTING TO MARGINAL ACCOUNTS: TRADITIONAL APPROACH**

In the traditional approach to the credit-granting decision on marginal accounts, the credit analyst tries to assess the creditworthiness of the applicant. Creditworthiness is a concept related to the positive and negative aspects of granting credit to the applicant.

One traditional way of organizing this information is by characterizing the applicant along five dimensions. These dimensions are called the Five Cs of Credit-capital, character, collateral, capacity, and conditions. These are discussed in the following paragraphs.

**Capital** : The evaluation of the applicant's capital refers to an analysis of

the applicant firm's financial position. What are the applicant firm's financial strengths? What are its weaknesses? Overall, is it stronger or weaker than other firms that the seller believes are creditworthy? To assess the capital dimension, the credit analyst considers the data obtained from the applicant's financial statements.

**Character** In order to make payments to trade suppliers, the applicant must have both the funds to pay the debts and the willingness to pay the debts. In assessing character, the credit analyst considers all the formation that relates to willingness to pay by the applicant's management. What is the applicant's history of payments to the trade? Has the firm defaulted to other trade suppliers? Does the applicant's management make a good-faith effort to honour debts as they come due?

**Collateral** If the applicant experiences financial difficulty, it may be forced to liquidate. In such a situation, the recoveries to trade creditors will depend on (1) the recoveries on assets sold. (2) the amount of debt owed by the firm, and (3) the extent to which these debts are secured. If the firm liquidates, the recoveries on assets that are security for debt will go to the holder secured debt.

**Capacity**: Capacity means the applicants ability to run business and their operations capacity.

**Condition**: Another, important fact is the condition of the applicant’s industry. When an industry condition is poor, granting credit to a customer from that industry may likely result in default.

**Modern Method (net present value model):**

In this the firm calculate net presents value of a particular sales, while also considering discount rate, cost of sales, payment time, recovery rate. If the NPV in negative, then the firm should not grant credit to the customer.

Here, S= The amount of sale

V= The cost of making sale

K= The required rate of return

R= Recovery Rate

C= expected time from the sales in days

D= expected time from the sales in year

X= The probability of default

(1-x)= The probability of payment

NPV2p= -V+S (1+k)^-c

NPV2d=-V+RS(1+k)-d

NPV2= (1-x)NPV2p +X(NPV2d)

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**Monitoring Accounts Receivable:** Accounts receivable management is the process of monitoring and controlling money customers owe to a business for goods or services purchased on credit. Accounts receivable management ensures a company receives timely payment to the customer. Analyzing a company's accounts receivable will help investors gain a better sense of a company's overall financial stability and liquidity.

By monitoring a company’s accounts receivable, it can-

* Changing Customer Payment Characteristics
* Identify companies that do not pay their bills, preventing possible future bad debt.
* Turn accounting money into real, usable cash, which can be used to improve the business.
* Accurately measure what they’re owed for what they’ve already provided and keep track of owed profits.

Accounts receivable is important because of

* Inaccurate Policy Forecast
* Improper Policy Implementation
* Monitor their customer payment activities and manage cash flow more effectively.
* Identify companies that do not pay their bills, preventing possible future bad debt.

Nestle Company properly monitor their accounts receivable in order to improve their cash collection and they could.

**Modern Ratio Analysis**

In order to overcome the difficulties which appear under traditional approach to the financial statements are being introduced. The modern approach to financial statement analysis is quite logical, more reasonable, most practical from the standpoint of various financial analysis relating to liquidity, solvency, profitability and, management efficiency of a firm.

There are several improved measures of liquidity. Two of those are

1 the cash conversion cycle

2 Net liquid Balance

**CASH CONVERSION CYCLE**

Cash Conversion Cycle is the net time interval between the expenditure of in the paying the liabilities and the receipt of cash from the collection of receivables. The low of the cash conversion cycle, the more liquid the firm is said to be. It is calculated by

Average Inventory Processing Period = 365 / Inventory Turnover

Average Receivable Collection period = 365 / Receivable Turnover

Payable Turnover = Cost of Sales / Accounts Payable

Average Payable Payment Period = 365 / Payable Turnover

**Cash Conversion Cycle (CCC) (Million)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **Average Inventory Processing Period** | **53.75** | **62.60** | **79.34** | **79.39** | **67.09** | **65.88** | **78.49** | **86.90** | **86.50** | **82.57** |
| **(+)Average Receivable Collection period** | **37.62** | **39.24** | **41.01** | **40.10** | **40.10** | **37.62** | **36.5** | **37.86** | **35.09** | **33.48** |
| **Operating Cycle** | **91.37** | **101.84** | **120.35** | **119.49** | **107.19** | **103.5** | **114.99** | **124.76** | **121.59** | **116.00** |
| **(-)Average Payable Payment Period** | **12.44** | **7.0** | **8.06** | **15.80** | **4.22** | **8.26** | **14.46** | **10.13** | **16.98** | **3.47** |
| **CCC** | **78.93** | **94.84** | **112.29** | **103.69** | **102.97** | **95.24** | **100.53** | **114.63** | **104.61** | **112.53** |

**Net Liquide Balance:**

Net liquid assets are a measure of an immediate or near-term liquidity position of a firm, calculated as liquid assets less current liabilities. Liquid assets are cash, marketable securities, and accounts receivables that can be readily converted to cash at their approximate current value.

**Net Liquid Balance (Million)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| Cash | **6415** | **7448** | **4884** | **7990** | **7938** | **4500** | **7469** | **5235** | **6988** | **5511** |
| (+)Marketable Securities | **64139** | **71884** | **63896** | **65981** | **62777** | **58403** | **52862** | **46514** | **53727** | **42792** |
| (/)Total Asset | **120442** | **133450** | **123992** | **131901** | **130380** | **137015** | **127940** | **124028** | **139142** | **135182** |
| Net Liquide Balance | **0.5858** | **0.5945** | **0.5548** | **0.5604** | **0.5423** | **0.4590** | **0.4755** | **0.4172** | **4.3312** | **3.7532** |

**Inventory management**

Inventory management refers to the process of ordering, storing, using, and selling a company's inventory.  Inventory management is responsible for ordering and tracking stock as it arrives at the warehouse.

Why carry inventory?

A company might carry extra inventory to ensure you meet customer expectations. A safety stock of finished goods, for example, can make sure you feel your best customer's orders even when demand suddenly increases. Additional spare parts can help the company meet emergency service needs.

raw material inventory

Maintaining raw material inventory is essential for various reasons. It allows companies to meet customer demand consistently, even during supply chain disruptions. It facilitates efficient production scheduling, reduces lead times, and helps take advantage of cost-saving opportunities through bulk purchases or supplier negotiations.

Why carry work in process inventory?

Carrying work in process inventory helps maintain production continuity by ensuring materials and partially completed items are available for subsequent production stages, reducing downtime, and accommodating fluctuations in demand and production processes. This helps optimize overall operational efficiency and meet customer expectations. A major reason that firms keep work in process inventory beyond this minimum level is to buffer production. Buffer is part of the planning processes to produce goods. Buffer, often referred to as a buffer zone or buffer stock, is a storage area positioned strategically within the production line. It is designed to hold a certain quantity of work-in-progress (WIP) or finished goods. Buffers can take various forms, such as racks, conveyor belts, or storage bins.

**Why carry finished goods inventory?**

Carrying finished goods inventory is essential to meet variable customerdemand, handle seasonal fluctuations, achieve economies of scale, mitigate supplier lead time delays, maintain production efficiency, and respond to sales opportunities, thereby ensuring customer satisfaction and business competitiveness.

**Alternative to holding inventory**

Holding inventory can be costly and comes with various risks, such as obsolescence, storage expenses, and potential loss due to theft or damage. To mitigate these challenges, businesses can consider alternative strategies or methods to manage their inventory:

**Just-in-Time (JIT) Inventory system**

JIT is a lean inventory management approach where companies order and receive inventory only when it's needed for production or sales. This minimizes the need for excess inventory, reduces carrying costs, and improves cash flow.

**EOQ**

The Economic Order Quantity (EOQ) model is a fundamental inventory management technique used to determine the optimal order quantity that minimizes total inventory costs.

The basic EOQ model is simple, but it applies only to those inventory situations described by its assumption, which are:

1. There are two types of costs: costs that are directly proportional to the amount of inventory held and costs that are directly proportional to the number of orders received.

2. There may be lead times of any length.

3. There is no risk.

4. The replenishment rate is infinite.

Eq**uation, EOQ, Q\* =**

**Here,**

|  |  |
| --- | --- |
| **Yearly Usage (S)** | **1191 (mil) units** |
| **Yearly Cost per dollar of Inventory ©** | **$ .9/year** |
| **Investment per unit of Inventory (P)** | **$7.5** |
| **Fixed cost of placing an order (F)** | **$63.8 or $64** |

**We know that, Q\*=**

=

= 150.28

The optimal order quantity is therefore 150 units per order. This will result (1191/150) in 7.94 orders per year. For 360 days per year, orders will be placed about every 45 days (360/7.94).

The total cost of holding and ordering the inventory will be:

Here given,

|  |  |
| --- | --- |
| Yearly Usage (S) | 1191 units (approx.) |
| Yearly Cost per Dollar of Inventory © | $.9/year |
| Investment per unit of Inventory (P) | $7.5 |
| Fixed Cost of Placing an Order (F) | $64 |
| Optimum order quantity | 150 |

We know that,

Total Cost = CP (Q/2) + F(S/Q)

= .9\*(7.5)\*(150/2) + 64 (1191/150)

= $1014

Order Quantity

The order Point: The order quantity strategy outlined above is very simple to implement: order 150 units every 45 days. However, rather than using a timed ordering approach, it is often advantageous to place orders based on inventory levels. In this way, if the usage rate is greater than expected, an order will be placed earlier and the goods received sooner. The triggering of orders based on inventory level is called the order point system, and it works well with modern methods of inventory record keeping. If Nestle’s data based on inventory level is adjusted each time a unit of inventory is used, then the firm’s computer can compare inventory levels to order points and generate a list of items to be ordered.

The order point is calculated as the expected usage during the lead time. For the prior example problem, assume that the lead time is seven days. The usage over this time will be (7/360)\*(1191) = 23 units (million). When the level of inventory reaches 23 million units, the firm should place an order for 150 units. Ust as this order arrives seven days later, Nestle company will run out of inventory.

This basic EOQ model with order points is easy to understand and to put into practice, but its range is limited to those situations described by its assumptions. Other situations require different models to portray their different circumstances.