

Preface

This project is on **Nestle Pakistan Ltd** which deals in foods & beverages. This project consists of company introduction, ratio analysis, converted the financial statements into common size statements and compared the ratios of 06 and 07. Finally we have tried to anticipate the future financial performance of the company.



**ACKNOWLEDGEMENT**

We would start by thanking our Almighty Allah, who granted us the sense to acquire

Knowledge, wisdom to know the difference and without His mercy & help we are not eligible

Complete this project.

During this project, we have learn a lot about financial concerns of multinational companies which we think is best for our future for acquiring and applying our finance concepts.

About Nestle’ Pakistan Ltd.

Nestle Pakistan is a subsidiary of Nestle’ S.A a company of Swiss origin headquartered

in Vevey, Switzerland. It is a food processing company, registered on the Karachi and

Lahore stock exchanges. For five years in a row, the company has won a place among the

top 25 companies of Karachi Stock Exchange. Headquartered in Lahore, the company

operates five production facilities. Two of its factories in Sheikhupura and Kabirwala are

multi product factories. One factory in Islamabad and two Karachi produce bottled water.

Through its effective marketing and a vast sales and distribution network throughout the

company, it ensures that its products are made available to consumers whenever,

wherever and however.

Nestle, has the unique ability to provide a complete range of food products, services and

well known brands to meet the needs of consumers around the world. It is not a faceless

corporation catering to faceless corporation catering to faceless consumers, but a human

company providing a response to individual human needs. Its respects the cultures of the

countries it operates in and recognizes the need for quality of life of their people. In line

with Nestle’ global philosophy, Nestle’ Pakistan is proud of its commitments to

excellence in product safety and quality and to providing value and services to its

consumers. On the social front it is very responsible when its comes to environmentally

sound business practices and corporate social responsibility. Nestle’ Pakistan operates in

many ways but people, products and brands are the main flag bearers of the company’s

image.

Company Profile

**Nestle Pakistan Limited**

**Ticker:** NESTLE

**Exchanges:** KAR

**2007 Sales:** 28,235,393,000

**Major Industry:** FOOD & BEVERAGES

**Sub Industry:** DIVERSIFIED FOOD

**Country:** PAKISTAN

**Employees:** 1958

# Director’s Report to the Shareholders

We wish to congratulate our shareholders on achieving one billion sales for the first time in the history of the Company, showing an increase of 47% as compared to last financial year. Your company has also shown 73% increase on its last year profits and registered earning per share of Rs.7.49 in 2005 as compared to Rs.4.34 in corresponding year.

The growth in sales was achieved by having a customer focused and project driven sale policies. Company’s initiative to absorb the adverse impact through efficiency rather than passing it on to the customer has also contributed positively. High profitability despite the aforementioned negative impacts was attained by having a controlled cost base, emphasis on cash management, improved efficiency, re engineering of key processes and company’s focus on making an efficient sale which brings in higher return on every rupee invested.

## Financial Result

During the year under review your Company crossed a landmark by achieving sales of Rs.1.2 Billion showing an increase of Rs.398 Million (47%) from last year. This increase in sales has helped us achieve record pre tax profit of Rs.145.024 Million showing an increase of Rs.64.350 Million (80%) and post tax profits of Rs.89.909 Million showing an increase of Rs.37.866 Million (73%).

The Company showed these record results at the time when raw material and other manufacturing costs were showing a substantial increase and was able to reduce its cost of sales by 2% of sales. The Company continued to show effective cash management which are reflected in positive cash flow, realizing a cash surplus of Rs 16 Million of bank borrowings.

## Analysis

In the director’s report to the shareholders, the directors of the company have explained all the related facts and figures related to the shareholders interest. The earning per share value and the dividends part also discussed in the report. This increases the goodwill and the shareholders side by having faith and loyalty toward the directors of the company. The directors have very efficiently point out the main figures related with the financial decisions. According to the financial analysis and decisions, the shareholders check and see whether the company is in a strong position to give more dividends and earning per share or not.

Statement of Compliance with the Code of Corporate Governance:

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

**Financial Statement Analysis (Nestle Pakistan Ltd.):**

Liquidity Ratios:

“Ratios that measure a firm’s ability to meet short-term obligations. It compares short-term obligations to short-term resources available to meet these obligations”

Current Ratio:

The current ratio is obtained by dividing the Current Assets with Current Liabilities.

Current ratio = Current Assets

Current Liabilities

**Current ratio (2007) = 5623823000/5978522000 = 0.94:1**

**Current ratio (2006) = 4627685000/5224488000 = 0.89:1**

This ratio shows how much current assets Nestle Pakistan Ltd. have in order to pay the short-term liabilities. This is a strong ratio of current assets and current liabilities keeping in mind the company’s gigantic size and product range and when we compare the 2007 ratio with the ratio of 2006, we get the consistent improvement in the results. Current assets are the company’s resources, which the company has and current liabilities are the short-term debts or obligations that the company owes.

The current ratio should be strong because when ever you need short-term loan, the bank will be very concerned with the current position as a sign of our short-term solvency.

If we want to increase our current ratio, we can payback the amount of our debts for the shorter period of time. The higher the current ratio, the greater the ability of the firm to pay its bills.

Acid-test (quick) Ratio:

Current assets less inventories divided by current liabilities. It shows a firm’s ability to meet current liabilities with its most liquid assets.

Acid-test Ratio= Currents assets – Inventories

Current liabilities

**Current ratio (2007) = 2793944000/ 5978522000 = 0.47:1**

**Current ratio (2006) = 2391039000 / 5224488000 = 0.46:1**

The current ratio

**Financial Leverage Ratios:**

“Ratios that show the extent to which the firm is financed by debt”.

Debt-to-Equity Ratio:

Debt equity ratio is computed by simply dividing the total debt of the firm by its shareholder’s equity.

Debt-to-equity = Total Debt

Total Equity

**Debt-to-equity ratio (2007) = 4028700000 / 4111705000 = 0.98:1**

**Debt-to-equity ratio (2006) = 3963700000 / 2531080000 = 1.57:1**

Debt-to-Total-Assets:

Dividing a firm’s total debt by its total assets derives the debt-to-total-assets ratio.

Debt-to-total-assets = Total Debt

Total Assets

**Debt-to-total assets ratio (2007) = 4028700000 / 15848574000 = 0.25:1**

**Debt-to-total assets ratio (2006) = 3963700000 / 12927902000 = 0.31:1**

**Long Term Debt to Total Capitalization Ratio**:

The Long Term Debt to Total Capitalization Ratio measures the percentage of the company's Total Assets that are financed with long term debt.  For this ratio, Long Term Debt and Total Stockholder's Equity are both considered long-term, as the equity provided by stockholders is part of the total capitalization (full debt load) of the company.

This ratio is another way of looking at the debt structure of the company, specifically determining what portion of the total capitalization is comprised of Long Term Debt.

Long Term Debt to Total capitalization Ratio = Long Term Debt

Total Capitalization

**T. Capitalization ratio (2007) = 4028700000 / 4482196000 = 0.90:1**

**T. Capitalization ratio (2006) = 3963700000 / 4398660000 = 0.90:1**

**Coverage Ratios**

Ratios that relate the financial charges of a firm to its ability to service, or cover, them.

Interest Coverage Ratio:

Earnings before interest and taxes divided by interest charges. It indicates a firm’s ability to cover interest charges.

Interest coverage Ratio = EBIT

Interest Charges

**ICR (2007) = 3134190000 / 584434000 = 5.36 times**

**ICR (2006) = 2453229000 / 447774000 = 5.48 times**

**Activity Ratios**

Ratios that measure how effectively the firm is using its assets.

Receivable Turnover

It is obtained by dividing the annual credit sales over Receivable.

Receivable Turnover = Annual Sales

Receivables

**Receivable turnover (2007) = 28235393000 / 2022387000 = 13.96 times**

**Receivable turnover (2006) = 22030958000 / 2109314000 = 10.45 times**

Receivables are 13.96 times of total annual sales.

Average Collection Period:

It is obtained by dividing the number of days in the year with the receivable turnover.

Average collection Period = Days in the Year

Receivable Turnover

**Collection period (2007) = 365 / 13.96 = 26 days**

**Collection period (2006) = 365 / 10.45 = 35 days**

Payable Turnover:

It is the ratio of annual credit purchases and the accounts payable.

Payable Turnover = Annual Credit Purchases

Accounts Payable

**Payable turnover (2007) = 593669000 / 397980000 = 1.5 times**

**Payable turnover (2006) = 656591000 / 338802000 = 1.94 times**

Payable Turnover in Days:

It is obtained by dividing the days in the year with payable turnover.

Payable Turnover in Days = Days in the Year

Payable Turnover

Inventory Turnover:

It is the ratio of cost of goods sold and the inventory.

Inventory Turnover = Cost of Goods Sold

Inventory

**Inventory turnover (2005) = 914069866/200334844 = 4.56 times**

**Inventory turnover (2004) = 641509467/164709577 = 3.89 times**

Total Asset Turnover:

It is calculating by dividing the net sales over total assets.

Total Asset Turnover = Net Sales

Total Assets

**Total assets turnover (2005) = 1252165877/845714375 = 1.48:1**

**Total assets turnover (2004) = 853673833/669425554 = 1.28:1**

**Profitability Ratios**

Ratios that relate profits to sales and investment**.**

Gross Profit Margin:

Gross profit margin is obtained by dividing gross profit and the net sales.

Gross Profit Margin = Gross Profit

Net Sales

**Gross profit margin (2005) = 338096011/1252165877 = 27% of sales**

**Gross profit margin (2004) = 212164366/853673833 = 25% of sales**

Net Profit Margin:

It is the ratio of net profit after taxes and the net sales.

Net Profit Margin = Net Profit After Taxes

Net Sales

**Current ratio (2005) = 89909035/1252165877 = 7%**

**Current ratio (2004) = 52043343/853673833 = 6%**

Return on Investment:

It is the ratio of net profit after taxes and the total assets.

Return on Investment = Net Profit After Taxes

Total Assets

**ROI (2005) = 89969035/845719375 = 10.6%**

**ROI (2004) = 52043343/669425554 = 7.8%**

Return On Equity:

It is obtained by dividing net profit after taxes with shareholder’s equity.

Return on Equity = Net Profit After Taxes

Shareholders’ Equity

**ROE (2005) = 89909035/377071304 = 24%**

**ROE (2004) = 52043343/308162269 = 16.9%**

**Du Pont Approach:**

Net profit after tax \* Net sales \* Total assets

Net sales Total assets Shareholder’s equity

89909035 \* 1252165877 \* 845714375

1252165877 845714375 377071304

7.18% \* 1.48: 1 \* 2.24: 1

**Market Ratios:**

**Earning per share:**

It is the ratio of the net profit after tax and the number of shares.

EPS = Net profit after tax

No. of shares

**EPS (2005) = 89909035/12000000 = Rs.7.49 per share**

**EPS (2004) = 52043343/12000000 = Rs.4.34 per share**

**Note:**

**No diluted EPS for the company, as the company has no such commitments.**

**Dividend per share:**

It obtained by dividing the dividend paid over the number of shares outstanding.

DPS = Dividend paid

No. of shares

**DPS (2005) = 36000000/12000000 = 3:1**

**DPS (2004) = 21000000/12000000 = 1.75:1**

**Dividend Payment Ratio:**

It is the ratio of dividend per share and the earning per share.

Dividend payment ratio = Dividend per share \* 100

Earning per share

**DPR (2005) = 3/7.49\*100 = 40%**

**DPR (2004) = 1.75/4.34\*100 = 40.3%**

**Book value per share:**

This ratio tells us the value of the share according to the company’s book and it is obtained by:

Book value per share = Total shareholder’s equity

No. of shares outstanding

Book value per share = 377071304

12000000

= Rs.31.4 per share

**Cash Coverage Ratio:**

Coverage ratio = EBIT + Depreciation

Interest Charges

= 155695848+ 230127124

7469555

= 51.6:1

**COMMON SIZE INDEX**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit and Loss Account** | | | | | | |  |  |  |  |
|  |  |  |  | **Regular Rs.** |  |  |  | **Common-Size %** | | |
|  |  |  |  | 2004 |  | 2005 |  | 2004 |  | 2005 |
|  | **Sales** |  |  | **853,673,833** |  | **1,252,165,877** |  | **100** |  | **100** |
|  | Cost of sales |  |  | (641,509,467) |  | (914,069,866) |  | 75.1 |  | 73 |
|  | Gross Profit |  |  | 212,164,366 |  | 338,096,011 |  | 25 |  | 27 |
|  | Distribution and marketing expenses |  |  | (95,542,763) |  | (115954108) |  | 11.1 |  | 9.3 |
|  | Administration expenses |  |  | (60,746,654) |  | (79775166) |  | 7.1 |  | 6.4 |
|  | Other operating expenses |  |  | (5,960,790) |  | (14,292,986) |  | 0.7 |  | 1.14 |
|  | Other operating income |  |  | 34,788,645 |  | 27,622,097 |  | 4 |  | 2.20 |
|  | **Profit from operations** |  |  | **84,702,804** |  | **155,695,848** |  | **10** |  | **12.40** |
|  | Finance cost |  |  | (4,028,461) |  | (10,671,813) |  | 0.48 |  | 0.85 |
|  | **Profit before taxation** |  |  | **80,674,343** |  | **145,024,035** |  | 9.5 |  | 12.0 |
|  | Taxation |  |  | (55,115,000) |  | (28,631,000) |  | 6.5 |  | 2.30 |
|  | **Profit for the year** |  |  | **52,043,343** |  | **89,909,035** |  | **6** |  | **7.20** |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| BALANCE SHEET | | | | | | |  |  |  |  |
|  |  |  |  | **Regular Rs.** |  |  |  | **Common-Size %** | | |
|  | **ASSETS** |  |  | 2004 |  | 2005 |  | 2004 |  | 2005 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **NON-CURRENT ASSETS** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Property, plant and equipment |  |  | 60,978,203 |  | 74,400,675 |  | 7.2 |  | 11.11 |
|  | Investment property |  |  | 3,050,937 |  | 2,927,967 |  | 0.36 |  | 0.44 |
|  | Assets subject to finance lease |  |  | 3,251,990 |  | -- |  | 0.38 |  | -- |
|  | Capital work-in-progress |  |  | 497,706 |  | 1,166,124 |  | 0.05 |  | 0.17 |
|  | Long term loans and deposits |  |  | 3,777,195 |  | 3,386,220 |  | 0.45 |  | 0.51 |
|  | Deferred taxation |  |  | 10,115,000 |  | 6,000,000 |  | 1.2 |  | 0.90 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **CURRENT ASSETS** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Stores, spares and loose tools |  |  | 23,084,131 |  | 29,934,278 |  | 2.73 |  | 4.47 |
|  | Stock-in-trade |  |  | 164,709,577 |  | 200,334,844 |  | 19.48 |  | 30.00 |
|  | Trade debts |  |  | 162,687,710 |  | 322,262,065 |  | 19.2 |  | 48.00 |
|  | Advances, deposits, prepayments and other receivables |  |  | 54,037,454 |  | 78,336,141 |  | 6.4 |  | 11.70 |
|  | Income tax recoverable |  |  | 47,870,637 |  | 7,341,775 |  | 5.66 |  | 1.10 |
|  | Cash and bank balances |  |  | 135,365,014 |  | 119,624,286 |  | 16 |  | 17.90 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **TOTAL ASSETS** |  |  | **845,714,375** |  | **669,425,554** |  | **100** |  | **100** |
|  |  |  |  |  |  |  |  |  |  |  |
| BALANCE SHEET | | | | | | |  |  |  |  |
|  |  |  |  | **Regular Rs.** |  |  |  | **Common-Size %** | | |
|  | **EQUITY AND LIABILITIES** |  |  | 2004 |  | 2005 |  | 2004 |  | 2005 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **Share Capital And Reserves** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Authorized Capital  (15000000 of Rs. 10 each) |  |  | 150,000,000 |  | 150,000000 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Issued, subscribed and paid up capital  (12,000,000 of Rs 10 each) |  |  | 120,000,000 |  | 120,000,000 |  | 14.2 |  | 18 |
|  | General reserve |  |  | 136,000,000 |  | 167,000,000 |  | 16 |  | 25 |
|  | Unappropriated profit |  |  | 52,162,269 |  | 90,071,304 |  | 6.2 |  | 13.5 |
|  |  |  |  | **308,162,269** |  | **377,071,304** |  | 36.4 |  | 56.3 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **NON-CURRENT LIABILITIES** |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  | Employees’ retirement and other benefits |  |  | 16,901,070 |  | 18,183,442 |  | 2 |  | 2.72 |
|  | Liabilities against assets subject to finance lease |  |  | 2,261,088 |  | -- |  | 0.26 |  | -- |
|  |  |  |  | **19,162,158** |  | **18,183,442** |  | 2.26 |  | 2.72 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **CURRENT LIABILITIES** |  |  |  |  |  |  |  |  |  |
|  | Liabilities against assets |  |  | 1,833,674 |  | -- |  | 0.22 |  | -- |
|  | Short term running finances |  |  | 69,163,577 |  | 103,217,976 |  | 8.2 |  | 15.4 |
|  | Trade and other payables |  |  | 251,865,080 |  | 324,931,419 |  | 30 |  | 48.5 |
|  | Provisions for other liabilities and charges |  |  | 18,579,818 |  | 20,575,248 |  | 2.2 |  | 3.1 |
|  | Accrued finance cost |  |  | 658,978 |  | 1,734,986 |  | 0.07 |  | 0.26 |
|  |  |  |  |  |  |  |  |  |  |  |
|  | **EQUITY AND LIABILITIES** |  |  | 845714375 |  | 669425554 |  | 100 |  | 100 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CASH FLOW STATEMENT** | | | |  |
|  |  |  | **2006 Rupees** | **2007 Rupees** |
|  |  |  |  |  |
| **Cash flows from operating activities:** |  |  |  |  |
|  |  |  |  |  |
| Cash generated from operations |  |  | 1619014000 | 4534010000 |
| (Increase) in long term security deposits |  |  | (750000) | (Nil) |
| (Increase) in long term loans and advances |  |  | 23464000 | 27170000 |
| Retirement other benefits paid |  |  | (69295000) | (74690000) |
| Finance cost paid |  |  | (394483000) | (593722000) |
| Taxes paid |  |  | (484975000) | (234803000) |
|  |  |  |  |  |
| **Net cash generated from operating activities** |  |  | **646047000** | **3603625000** |
|  |  |  |  |  |
| **Cash flows from investing activities:** |  |  |  |  |
|  |  |  |  |  |
| Fixed Capital expenditure |  |  | (3584428000) | (2909391000) |
| Proceeds from sale of property, plant and equipment |  |  | 63512000 | 67321000 |
|  |  |  |  |  |
| **Net cash used in investing activities** |  |  | **(3520916000)** | **(2842070000)** |
|  |  |  |  |  |
| **Cash flows from financial activities:** |  |  |  |  |
|  |  |  |  |  |
| Dividend paid |  |  | (1132770000) | (226748000) |
| Payment of financial lease liabilities |  |  | (5213000) | (18333000) |
| Receipt of long term finances |  |  | 3066850000 | (Nil) |
| Repayment of long term finances |  |  | (1150000000) | (300000000) |
| Net movement in short term borrowings-secured |  |  | 575000000 | 335000000 |
|  |  |  |  |  |
| **Net cash used in financing activities** |  |  | **1353867000** | **(210081000)** |
|  |  |  |  |  |
| **Net(decrease)/increase in cash and cash equivalents** |  |  | **(1521002000)** | **551474000** |
|  |  |  |  |  |
| **Cash and cash equivalents at the beginning of the year** |  |  | **(262046000)** | **(1783048000)** |
|  |  |  |  |  |
| **Cash and cash equivalents at the end of the year** |  |  | **(1783048000)** | **(1231574000)** |