



POKISTANDAGI ENGRO FOODS LIMITED VA NESTLE PAKISTAN LIMITED KOMPANIYALARI BO'YICHA KORPORATIV MOLIVAVIY TAHLILLARI

Mardiyeva Ruxsora Istam qizi
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Annotatsiya. Oziq-ovqat va ichimliklar sanoati atrof-muhit qoidalarini o'zgartiradi va organik ishlab chiqarish bilan bog'liq noyob muammolarni hal qiladi, chunki u butun dunyo bo'ylab asosiy sanoat va iqtisodiy kuchdir. Pokiston potensial ravishda rivojlanayotgan bozorlarga ega bo'lgan keyingi 11 mamlakatdan biri bo'lishi mumkin, bu esa butun dunyo bo'ylab iqtisodiyotning jadal o'sishiga olib keladi. Ushbu maqola Pokistonning ENGRO FOODS Limited va NESTLE Pakistan Limited oziq-ovqat sanoatining asosiy moliyaviy o'yinchilari to'g'risidagi ma'lumotlarga asoslangan.

Kalit so'zlar: rentabellik koeffitsientlari, likvidlik, aktivlardan foydalanish, fond bozori faoliyati.

АНАЛИЗ КОРПОРАТИВНЫХ ФИНАНСОВ НА ПРИМЕРЕ КОМПАНИЙ ENGRO FOODS LIMITED И NESTLE PAKISTAN LIMITED В ПАКИСТАНЕ

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Аннотация. Пищевая промышленность и производство напитков меняют экологические нормы и решают уникальные проблемы, связанные с органическим производством, поскольку оно является основной промышленной и экономической силой во всем мире. Пакистан потенциально может стать одной из следующих 11 стран с развивающимися рынками, которые приведут к бурному экономическому росту во всем мире. Данная статья основана на ключевых финансовых игроках пищевой промышленности Пакистана, которыми являются ENGRO FOODS Limited и NESTLE Pakistan Limited.

Ключевые слова: коэффициенты прибыльности, ликвидности, использования активов, заимствования, показатели фондового рынка.

CORPORATE FINANCE ANALYSIS THROUGH THE CASE OF ENGRO FOODS LIMITED AND NESTLE PAKISTAN LIMITED COMPANIES IN PAKISTAN

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Abstract. The food and beverages industry is changing environmental regulations, and handling the unique issues involved with organic production as it is major industrial and economic forces worldwide. Pakistan has potentially become one of the Next 11 countries which has emerging markets leading to booming economics of the globe. This article is based on the key financial players of the food industry of Pakistan, which are ENGRO FOODS Limited and NESTLE Pakistan Limited.

Keywords: profitability ratios, liquidity, asset utilization, gearing, stock market performance.

Introduction.

Engro Foods Limited is one of the massive food companies due to its diverse offerings of products to the consumers (Engro Group, 2022, 2021). Engro Foods Limited is currently holds 71% share of the Food market as it is major contributor with its subsidiary products, deserts, and drinks including worldwide brands such as Olper, Omore, Tarang, and Dairy Omung (figure 1).

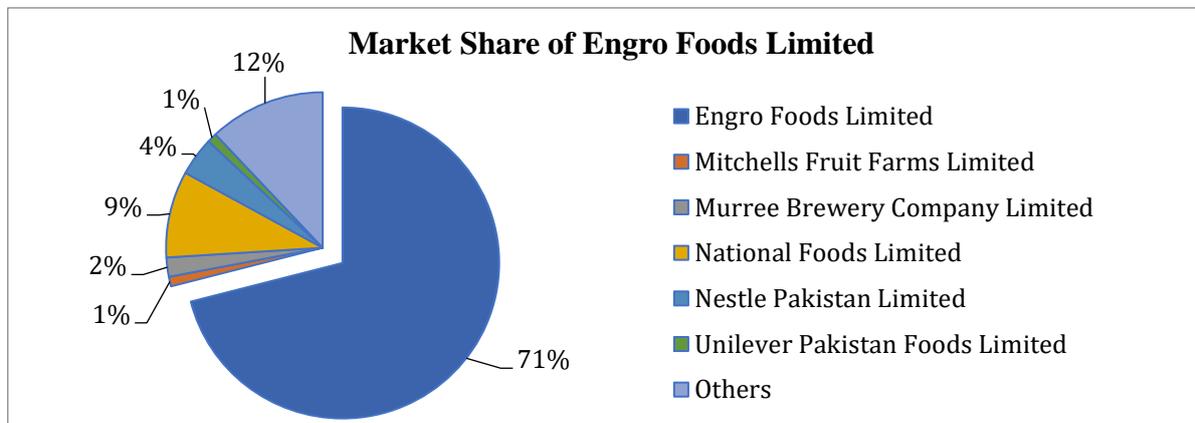


Figure 1. Market Share of Engro Foods Limited

Nestle Pakistan Limited is well - known as the third contributor towards Food industry of Pakistan, a worldwide branded which everyone is acquainted with. Nestle Pakistan has been operating since 1988 and become a leader with its diverse offerings of products by satisfying everyone’s need (Nestle Group, 2022, 2021). The main products of Nestle Pakistan are Mineral Water, Dairy Products, Maggie Noodles, Nescafe and so many. It is crucial that all of these products possess high quality. Nowadays, Nestle Pakistan Limited owns 4% share of the Food Industry as provided in figure 2 below:

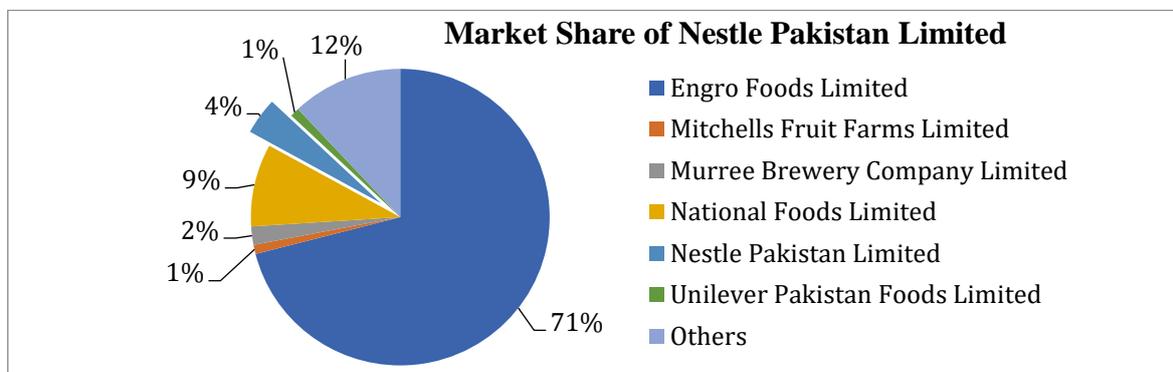


Figure 2. Market Share of Nestle Pakistan Limited

Economic burdens of war on India and Pakistan

Even though trade is not playing an important part in India-Pakistan relations, Pakistan cannot afford to have a prolonged conflict with India because its economy is in shambles. It is in urgent need for a bailout from the International Monetary Fund (IMF) of around \$12 billion. It needs more foreign aid and loans from other sources but its credit rating by international agencies has fallen. Recently, Saudi Arabia and China have given \$2 billion each in loans to Pakistan (Coker, 2007).

Due to the war, Pakistan is currently struggling with high inflation, rising sovereign and domestic debt, a falling currency (138.39 Pakistan rupee to a dollar) and a fiscal deficit of 5.1 per cent. Therefore, it actually effects to the foods and dairy business namely Nestle and Engro Corporation profitability has decreased from last year owing

to continuous regulatory challenges arising primarily due to misalignment between federal and provincial food laws, faced by the entire dairy sector. These issues created an incorrect negative perception in the minds of consumers and, as a result, the dairy industry witnessed a decline in overall volumes compared to the previous year. The sharp increases in commodity costs, along with Rupee devaluation and, as rising interest rates, have also put pressure on overall industry profitability.

Competitive Rivalry: The major competitors of food and beverages in Pakistan: Haleeb Foods, Engro Foods, Shezan and Nestle Pakistan. For this purpose, Nestle Pakistan applied strategies include Cost leadership, differentiation in products including strong and intimate relationship with suppliers and customers. Whereas, Engro Foods intends to achieve more market share as compared to other competitors by achieving it applied the differential strategy in form of taste, quality, and availability of Engro Foods products (Hossan, 2020).

Literature review.

Adler, H. expressed about the economy of Pakistan and its social effect as the process whereby a public agency or private enterprise determines whether a project meets the country's economic and social objectives and whether it meets these objectives efficiently (Adler, 1987).

However, according to Akhtar, W revealed that Firms can finance their activities either by issuing debt or equity but most prefers the mixture of these two called financing mix or capital structure (Akhtar, 2023). Deciding on debt and equity level is a key role played by financial managers, who always want to choose an optimal capital structure i.e. the one which maximizes the value of a firm and minimizes its cost of capital.

Tax deductibility of interest payments has made firms to rely on debts as against equity thereby causing an increase in debt to equity ratios and increase in bankruptcy risk, giving rise to debt bias. Evidences have shown that all this creates inequities, economic distortions and put in to threat the public revenues (Al-Yahyaee, 2021).

According to Ward and Price financial leverage refers to that proportion of capital which is financed with debt. It represents the claim of the creditors on the assets of a firm in the events of liquidation (Akhtar, 2023). The value of a firm as is shown by the share prices is all that the management of a firm wants to maximize. The higher the market prices per share, the higher the firm's value (Al-Yahyaee, 2021).

Capital structure is affected by interest rate changes. High interest rates make interest payments on loans to be high (Al-Yahyaee, 2021). Joseph found that stock returns changes as a result of changes in interest rates. Hyde states that with interest rate change, the interest payments and principle amount of a loan changes. Atrill have also shown the effect of interest on capital structure (Anderson & Houtman, 2014).

Research methodology.

Stakeholder analysis of food industries in Pakistan

(A comparative study of Engro Foods and Nestle Pakistan)

Shareholders: The main goal of organisation is to maximise shareholder's value and wealth. Satisfying them is serious as they contribute most of the assets. Shareholders will look at the profitability and liquidity ratios to check on the sustainability and profitability of the company.

The both groups earned for each \$100 net sales slightly higher and favourable gross margin of 29.78% (roughly 30%) in 2022 rather than 27.06% in 2021 for Engro Foods and gross profit margin of Nestle indicates 49.61% in 2022 as compared in 2021, 49.13% which most analysts agree that both companies contributes good profitability positions.

It seems, this can be because of a growth in sales from 128,592 (2021) to 171,568 (2022) in Engro and from 89,590 (2021) to 91,439 (2022) in Nestle. By glancing at the ratio data comparisons that Nestle is, earning twice more profit in both final years compared to Engro Foods, the main reason might be due to the war between India and Pakistan.

Operating profit margin shows ratio between operation efficiency and company's sales (Atrill & McLane, 2013). Stable and greater margin indicates the firm's success. In this case, Engro Foods had slightly increased from 24.17 % (2021) up to 24.33% (2022) while Nestle indicates 15.07 % in 2022 and 14.81 % in 2021 respectively. The foregoing results clearly indicate that Engro's managers were better at managing its cost of goods sold and operating expenses than Nestlé's managers were. Thus, increase in overall operating profit in 2018 went to upward tendency.

The pre-tax profit margin is the profit before tax, which equals to 21.23% (2022) and 21.32% (2021) for Engro Foods, indicates how the company managed to increase its sales while reducing expenses. Whereas Nestle shows 14.20% (2022) and 10.55% in 2021 respectively, which means Engro Foods is more profitable due to the higher ratio compared to Nestle.

The post -tax profit to margin examines the real earnings' percentage by a company for each \$1 (Hightower 2008). Both companies experienced a gradual increase, which shows 1.34% difference between 2022 and 2021 in Engro Foods, while 3.06 % in Nestle mostly due to the growth in sales of food and beverage products.

Table 1

Summary of Profitability Ratios¹⁶

№	Profitability Ratios	Engro Foods		Nestle Pakistan	
		2022 (%)	2021 (%)	2022 (%)	2021 (%)
1	Gross profit margin	29.78	27.06	49.61	49.13
2	Operating profit margin	24.33	24.17	15.07	14.81
3	Pre-tax profit margin	21.23	21.32	14.20	10.55
4	Post-tax profit margin	14.06	12.72	11.44	8.38

Liquidity

In general, liquidity ratios show firm is ability to pay its day-to-day obligations and a ratio of 1.0 indicates a reasonably liquid position.

In Engro Foods, the current ratios for both years were above one, which most analysts agree that this indicated good liquidity positions. However, the current ratios for Nestle were 0.95 in 2022 and 0.83 in 2021. By comparison, results, Engro Foods had 1.95 times more current assets than current liabilities in 2022, which shows the company, may pay off debts without selling any long-term assets compared to Nestle. However, Engro Foods felt a slight drop in the quick ratio from 1.80 to 1.73 in 2022 while in Nestle, the quick ratio increased from 0.59 to 0.74 in 2022 respectively. It was caused by a decrease in inventory of 52 rupee from 9177 rupee in 2021 to 9125 rupee in 2022. Inventory turnover days revealed in efficiency ratios were only 2 days difference for both companies in final years (see the asset utilization ratio 3.3.1). The quick ratio of Engro Foods 1.73 (2022) is the proof of stable liquidity of the company whereas the quick ratio of 0.74 implied that the Nestle had only 74 rupees of liquid assets to meet every dollar of current liabilities when they become due for payment. It seems Nestle had a fall in demand for its products due to the solid business strategy.

¹⁶ Source: Engro Group. Annual Reports 2022, 2021.

Table 2

Summary of Liquidity Ratios

№	Liquidity Ratios	Engro Foods		Nestle Pakistan	
		2022 (times)	2021 (times)	2022 (times)	2021 (times)
1	Current ratio	1.95	2.00	0.95	0.83
2	Quick (Acid-test) ratio	1.73	1.79	0.74	0.59

Asset Utilization

Efficiency ratios are performed to identify how efficiently assets of organization are used. Better using can lead to better rate of return.

Inventory holding days measures the number of times the group sells its inventory within a year (Hossan, 2020). Ratios of Nestle company has little bit improved from 73.02 days (2021) to much effective 72.29 days (2022). This favorable improvement is due to considerably lower cost of sales accompanied by a lower reduction in inventories as compared to Engro Foods, this indicates 52.20 days (2022) and 50.85 days in 2021. However, Engro Foods still better uses efficiently assets to generate profit rather than Nestle does.

Accounts Receivable Days for Engro Company was almost the same in both years 39.63 days and 38.72 days with almost 1-day difference. While the figure of Nestle shows almost 5-day, difference 44.57 days in 2022 and 49.03 in 2021. Most analysts agree that this indicated good position of credit collecting management so that for Engro it takes less than a month to collect the credits that they provided. Over the year the accounts payable in days of Engro had significantly increased for more than 11 days mostly due to decrease in cost of sales. This tendency might be defined as positive from one side, because Engro paying out for creditors slowly because they trust to Engro Foods, however on the other hand it may show Engro has some financial problems to pay out on time.

Engro Foods had considerably slowed down its Working capital cash operating for 9 days in 2022 (60.79 days) comparing to 2021 (51 days). While Nestle experienced an increase its Working capital cycle for almost 5 days from 29.04 days (2021) up to 24.16 days (2022).

In 2021, Nestle earned for every \$1 of sales 0.67 rupee and the rate declined to 0.66 rupee in 2022, while in Engro this rate indicates 0.39 rupee in 2021 and 0.43 rupee in 2022, which means nestle, is not using its assets efficiently and has invested to unnecessary assets.

Table 3

Summary Asset Utilization Ratios

№	Asset Utilization Ratios	Engro Foods		Nestle Pakistan	
		2022 (times)	2021 (times)	2022 (times)	2021 (times)
1	Inventory turnover	6.99	7.17	5.04	4.99
2	Accounts receivable turnover	9.20	9.42	8.18	7.44
3	Accounts payable turnover	2.39	2.58	2.58	2.41
4	Total asset turnover	0.43	0.39	0.66	0.67
№	Asset Utilization Ratios	2022 (days)	2021 (days)	2022 (days)	2021 (days)
1	Inventory holding days	52.20	50.85	72.29	73.02
2	Accounts receivable days	39.63	38.72	44.57	49.03
3	Accounts payable days	152.62	140.94	141.02	151.09
4	Working capital cycle	(60.79)	(51.37)	(24.16)	(29.04)

Gearing

Gearing ratio shows the relative proportion of shareholders' equity and debt used to finance a firm's assets.

The low debt ratios describe lower risk owing to debt holders have less claims on the company's assets. The high debt ratios mean that a firm has been aggressive in financing growth with debt and often results in volatile earnings.

Total liabilities to total assets ratio indicates deteriorated scenario in both companies with slight unfavorable growth from 47.17% (2021) to riskier 52.79% (2022) for Engro and almost 5% increase from 53.28% (2021) to 57.37% (2022) in Nestle.

In 2017 Engro's 24 % assets were financed by the non-current liabilities and it improved by almost 7 % in 2022 and the percentage became around 31 % while Nestle felt slight increase from 24.61% (2021) up to 25.96% (2022).

Total liabilities to equity ratio also be known as the financial risk ratio and expresses the proportion of total liabilities and capital and reserves of the group (Rasa Subaciene, 2020). In both companies, the ratio shows higher, unfavorable result 23% increase in Engro and almost 21% growth in Nestle. It seems the reason could be insignificant increase of equity together with huge rise in total liabilities.

Equity to total asset ratio surveys long-term profitability and financial competitiveness of an industry. This ratio illustrates whether the company's equity (shares) is safe enough to invest or not. Back to companies: Engro and Nestle, slight rise in shares along with assets increase had not allowed the percentage of Equity asset ratios of both differ much from previous year, 47.20% (2021) and 52.82% (2022) in Engro and 42.62% (2021), 46.71 % (2022) in Nestle respectively.

Interest cover ratio supports to measure Company's ability to pay on its debt on timely basis. It illustrates firm's ability to afford the interest on its debt. Interest cover ratio for Engro was 6.05 in 2021 perhaps it was owing to low interest expense on debt and the rate increased to 7.65 in 2022. Thus, Nestle definitely had more capacity for covering its interest expense than Engro did: 13.64 times for Nestle (2022) versus 7.65 times for Engro (2022). It could be expected that Nestlé's higher interest coverage be due to from using less debt than Engro. However, this is not the case. Debt ratio of Engro was lower than Nestle – 57 percent compared to 53 percent. Hence, Nestle will be able to repay the debt principal in spite of its higher debt ratio.

Table 4

Summary of Gearing Ratios

№	Gearing Ratios	Engro Foods		Nestle Pakistan	
		2022 (%)	2021 (%)	2022 (%)	2021 (%)
1	Total Liabilities to Total Assets	52.79	47.17	57.37	53.28
2	Non-Current Liabilities to Total Assets	30.80	24.19	25.96	24.61
3	Total Liabilities to Equity	111.84	89.30	134.60	114.06
4	Equity to Total Asset	47.20	52.82	42.62	46.71
5	Interest Cover (times)	7.65	6.05	13.64	11.97

Stock Market Performance

According to experts, the stock market performance or market value ratios indicate the willingness of investors to value a firm in the marketplace relative to financial statement values (Nwude, 2012). A company's profitability, risk, quality management, and other factors are

revealed in its stock and security prices by the efficient financial markets resulting investor to identify easily to buy a company's security or not.

The returns on equity for Engro and Nestle were 12.73 percent and 17.92 percent, respectively in 2022. It seems the owners of Engro were receiving a lower return on their equity investment than the shareholders of Nestle. This can be because of Engro used less debt (more equity) financing compared to Nestle – 57 percent debt and 53 percent debt for Engro. The more a debt company uses, the greater its return on equity will be, if the business is earning a return on assets higher than the interest rate on its debt. Thus, Nestle has increased its return for its shareholders by financing more debt, which most analysts agree that it is good news however, the bad news for Nestle's shareholders is the more debt contributes the greater the firm's financial risk and more risk for shareholders.

ROCE ratio examines with comparisons the firm profitability based on the amount of capital it uses. Both companies' ratios illustrate favorable, very effective financial performance with an increase from 17.47 % (2021) to 22.01% (2022) for Engro and 6 percent growth for Nestle respectively. It can be due to the sharp increase in the shareholder's equity with a growth in income before provision for income taxes.

Table 5

Summary of Stock Market Performance

№	Stock Market Performance	Engro Foods		Nestle Pakistan	
		2022	2021	2022	2021
1	Return on Owner`s Equity	12.73%	9.52%	17.92%	12.06%
2	Return on Capital Employed	22.01%	17.47%	19.87%	13.75%
3	Return on Total Assets	10.61%	9.59%	10.06%	9.96%
4	Earnings per Share	Rs24.26	Rs17.96	Rs3.36	Rs2.31
5	Cash dividend declared per share	Rs4.90	Rs2.61	Rs2.45	Rs2.30
6	Dividend Yield	8%	7%	2.8%	2.7%
7	Dividend Cover	4.95 times	6.88 times	1.37 times	1.00 times
8	Dividend Payout	87%	117%	72.9%	101.7%
9	Net Asset backing per Share	Rs0.35	Rs0.32	Rs19.37	Rs20.12
10	Price Earning	2.52 times	2.07 times	25.74 times	37.40 times

Results and discussions.

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Market Perception

Earnings per share are the sum of the monetary value received during the period on behalf of each outstanding share ordinary shares (Al-Yahyaee, 2021). Both companies experienced a growth from 17.96 rupee (2021) up to 24.26 rupee (2022) for Engro and 2.71 rupee to 3.36 rupee for Nestle. Price Earnings ratio of Nestle indicates that the investors were willing to pay 25.74 rupee for every dollar of earnings per share that Nestle produced, compared to the rate of 2.52 for Engro in 2022.

Thus, investors were willing to pay more for Nestlé's earnings than shareholders of Engro were. It might be for investors that Nestle have more growth potential and smaller risk compared to Engro due to the better earnings.

Conclusions.

The examination of above it is plainly perceptible that Nestle had less fulfilling financial year in 2022 compared to Engro Foods. It shows even with gainfulness proportions which indicate general direct decrease but it may, for the potential financial specialist it ought not to be a major dread. Nestle is one of the best profitable organizations on the world. In this case, it is normal that offer costs will increment with the expansion of benefit of the organization. Based on this information it is an ideal time to purchase customary offers of the organization.

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