Financial Analysis and Prediction of Corporate Bankrupcy: The nexus. (A Study of Unilever Nigeria Plc)

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ABSTRACT

This study examined the impact of financial ratios and prediction of corporate bankruptcy. Secondary source of data collections was adopted which includes the use of data of the Unilever Nigeria Plc Published Accounts and the Nigerian Stock Exchange Fact Book (2020). Data collated was analyzed using the following test: descriptive statistics, qualitative and quantitative appraisals. The results revealed that liquidity ratios are in order in most of the periods, leverage ratios are on the high side, activity ratios could be better off and profitability ratios are very poor. The study concluded that the finding revealed that Unilever Nigeria Plc based on the Z-Score analysis carried out for Year 2023 financial information, is still very sound and not prone to bankruptcy for now.

5.3 Introduction

In today's financial world, financial performance is significant for various stakeholders, be the management, lenders, owners and investors. Measurement of Financial performance is crucial for taking financial decisions. Hence, it is of the paramount importance for taking financial decisions effectively. The annual financial reports provided by the accounting system, is considered the main source for information for decision-makers especially the investors. Therefore, the validity and accuracy of the decisions depend on the proper analysis of financial statements. Despite, the fact that there are other factors affecting investment decisions, such as, economic, political and social considerations, but still the financial analysis factors constitute the main tool in attracting investment.

Evaluating firm performance using financial ratios analysis has been a traditional yet powerful tool for decision-makers, including business analysts, creditors, investors, and financial managers. Rather than employing the total amounts observed on financial statements, these analyses were conducted using a number of financial ratios to obtain meaningful results. Financial ratio analysis can help stakeholders analyze the financial health (bankruptcy) of a company. Using these financial ratios, comparisons can be made across companies within an industry, between industries, or within a firm itself. Such a tool can also be used to compare the relative performance of different size companies. A sustainable business and mission require effective planning and financial management. Ratio analysis is a useful management tool that will improve your understanding of financial results and trends over time, and provide key indicators of organizational performance. Managers make use of ratio analysis to pinpoint strengths and weaknesses from which strategies and initiatives can be formed. Funders may use financial ratio analysis to measure results against other organizations or make judgments concerning management effectiveness and mission impact. For ratios to be useful and meaningful, they must be: (i) Calculated using reliable, accurate financial information; (ii) Calculated consistently from period to period; (iii) Used in comparison to internal benchmarks and goals; (iv) Used in comparison to other companies in your industry; (v) Viewed both at a single point in time and as an indication of broad trends and issues over time; and (vi) Carefully interpreted in the proper context, considering there are many other important factors and indicators involved in assessing performance.

It is a norm all around the world to see that owners of businesses are different from those managing it. This automatically makes

managers to be stakeholders of businesses, they are managing. Managers of businesses are usually faced with the responsibility of managing the resources of shareholders or shareholder's wealth maximization. The resources of a business go beyond finances and it's included both assets (tangible and intangible) and humans (employees) etc. Businesses could be in form of production of goods, buying and selling, manufacturing, extraction of resources marketing and/or and are connected to human resources who are involved with the business or affected by its operations directly or indirectly.

The performance of a company can be determined with the use of financial and non-financial measures. Companies' performances are usually determined majority with the amount of profit made by the company. The factors for evaluating companies' performances are based on the shareholders' interests. And such evaluations are carried out based on the financial statements reported by the management to shareholders and other stakeholders. Financial ratios are tools used to analyze financial conditions and performance of a company.

As a result of economic hardship and inflation prevailing in the economy, it becomes very important that an effective and reliable means of evaluating the performance of companies for investment decision should be adopted by management, shareholders, creditors and even general public.

The main objective of every business is subdivided into two, that is, profitability and solvency. Profitability is the ability of a business to make profit, while solvency is the ability of a business to pay debts as they come due. To take the right decision at the right time executives should know the financial position of the organization, without which it is not easy to take any type of action for the expansion and growth of the organization. Through financial information an executive can take imperative decision as and when they are required. For studying the financial health and having accurate financial information of a business, ratio analysis is being considered as the major tool at present.

Financial ratio exposes the position of the business in terms of performance and efficiency of operation. They show whether the management are efficient or inefficient in their utilization of resources such as capital, assets, labour etc. This enables existing and potential investors to decide whether to invest or not, and whether to hold stock or dispose them because financial ratios express areas of weakness and strength of the companies and mangers use them to review operations for better performances in the future. It is in line with this, the study examines the impact financial ratio analysis and prediction of corporate bankruptcy have on organizational performance.

Statement of the Problem

It is not certain whether financial ratios are generally accepted as relevant and reliable tools for evaluating performance of Unilever Nigeria Plc. There has been a lingering problem in Unilever Nigeria Plc as regards to the financial performance evaluation which the company seek to know the various types of ratios and its own performance so that the organization can take a sound decision in terms of investment, shareholders interest, and the general public. It is at this premise that the research is carried out to find out over time the performance of this company using financial ratios analysis to ascertain the level of its performance from the period of the study.

More disturbing is the choice of ratios such as liquidity ratio, profitability ratio, operational efficiency ratio (activity ratio) and leverage ratio to pick from or use when making analysis as we have many parties interested in financial information and the various ratios signify different meanings or interpretation to the various users.

Many investors in Nigeria are not so educated and as a result of inexperience, they cannot use or employ financial ratios in evaluating the performance of the company. Also, existing shareholders use the cash dividends and interest paid to them in evaluating the performance of the company for investment decision. These parameters do not give accurate information about the performance and efficiency of operation of the company.

Objectives of the Study

The main objective of the study is to examine the impact of financial ratios analysis on organizational performance and prediction of corporate bankruptcy of Unilever Nigeria Plc.

Other specific objectives are:

i. To examine the extent at which liquidity ratio influences the financial performance of Unilever Nigeria Plc.

ii. To investigate the degree at which profitability ratio increases the financial performance of Unilever Nigeria Plc.

iii. To examine how operational efficiency ratio impacts on the financial performance of Unilever Nigeria Plc.

iv. To identify the extent at which leverage ratio increase financial performance of Unilever Nigeria Plc.

Definition of Terms

Liquidity ratio: measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio and operating cash flow ratio.

Leverage/ Debt ratio: is any one of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet its financial obligations.

Activity/Operational efficiency ratio: can be defined as the ratio between an output gained from the business and an input to run a business operation. When improving operational efficiency, the output to input ratio improves.

Profitability Ratio: are a class of financial metrics that are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time.

2.0 LITERATURE REVIEW

Introduction

This section reviews the conceptual issues relating to the impact of financial ratios on organizational performance, theoretical framework, empirical studies and the existing gap of the study.

Conceptual Framework

Concept of Financial Ratios

The term ratio refers to the numerical or quantitative relationship between two variables. Igben (1999) —Accounting or financial ratio is a proportion or fraction or percentage expressing the relationship between one item in a set financial statements and another item in the financial statements. Accounting ratios are the most powerful of all tools used in analyzed and interpreting financial statements". Ratio analysis is a widely used tool in financial analysis. It is defined as the systematic use of ratios to interpret the financial statements so that the strength and weaknesses of a firm as well as its historical performance and current financial condition can be determined. Therefore, ratio analysis involves taking stats of number (or items) out of financial statements and forming ratios with them, to enhance informed judgments and decisions. Ratios can be divided into four major categories: Liquidity ratios, Leverage Ratios or Solvency Ratios or Capital Structure Ratios, Activity or Turnover Ratios or Working Capital Ratios, Profitability Ratios

Drake (2010), financial statement analysis is the selection, evaluation, and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision-making. Moreover, it is also the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account (accounting for management website).

Analysis of financial statement assists in identifying the major strengths and weaknesses of a business enterprise. It indicates whether a firm has enough cash to meet obligations; a reasonable accounts receivable collection period; an efficient inventory management policy; sufficient plant, property, and equipment; and an adequate capital structure (Moyer, McGuigan, Kretlow, 2005).

The economic climate calls for investors to apply financial analysis as they evaluate business performance, weigh potential investments, and assess global competition. Investment is putting money into an asset with the expectation of capital appreciation, dividend or interest earnings. Financially, investment is the purchase of an asset or item with the hope that it will generate income or appreciate in the future and be sold at the higher price (Wikipedia, 2014).

Ratio Analysis is one of the basic tools of financial analysis. It is an important tool in business planning and decision making as it explores the strengths, weaknesses, opportunities and threats facing the company. Smart investors use financial ratios to analyze a company's financial performance before making an investment. Financial ratios reveal how a company is financed, how it uses its resources, its ability to pay its debts and its ability to generate profit. Ratios provide a glimpse of a company's position at a particular time, and are most useful when compared across time periods and when comparing

companies in the same industry. Ratios alone do not give a complete picture of a company's investment potential, but they are a wise place to start the analysis (Young, 2014).

Financial ratios allow for comparisons and, therefore, are knotted with the process of benchmarking, comparing one's business to that of others or of the same company at a different point in time. In many cases, benchmarking involves comparisons of one company to the best companies in a comparable peer group or the average in that peer group or industry. In the process of benchmarking, investor identifies the best firms in their industry or in another industry where similar processes exist, and compares the results and processes of those studied to one's own results and processes on a specific indicator or series of indicators (Boundless, 2014).

Financial statement analysis (or financial analysis) is the process of understating the risk and profitability of a firm (business, sub - business or project) with the use of ratio. They portray the assets and liabilities of a business firm at a moment in time usually at the end of a year, an income statement which involves the revenue, expenses, taxes and profit of the firm at a particular period of time usually one year. While statement of financial position represents a snapshot of the firm's statement of assets and liabilities at a moment in time. To evaluate a firm financial condition and performance, analyst use various ratios in doing this. Financial statements are the most widely used and the most comprehensive way of communicating financial information to users or parties interested in accounting information. Different users of financial statements have different informational needs and reasons for informed investment purposes. Some of the users include; employees, government, investors, creditors, lenders, management and shareholders.

There are two types of comparison of financial ratio; Internal comparison where the analyst can compare a present ratio with ratio of the same company, it can also be computed for projected or perform a statement and compared with present and past ratio. The second involves comparing the ratio of one firm with another in the same sector, called industrial average rato.

Liquidity Ratios

Leverage/Debt Ratios

S. No.	RATIOS	FCRIMULAS
1	Current Ratio	Current Assets/Current Liabilities
2	Quick Ratio	Current Assets-Inventories /Current Labilities

S.No.	RATIOS	FORMULAS
1	Total Debt Ratio.	Total Debts/Capital Employed
2	Debt Equity Ratio	Net worth/ Total Debts

Activity Ratios

S/No.	RATIOS	FORMULAS
1.	Inventory Turnover Ratio	Net Sales /Inventory
2.	Asset Turnover Ratio	Sales/ Capital Employed

Profitability Ratios

S. No.	RATIOS	FORMULAS
1.	Net Profit Margin Ratio	Profit after Taxes /Sales X100
2.	Return on Assets Ratio	Net Profit after Taxes/ Total Assets X100

Importance of Accounting Ratios

Raph and Atu (2013) ratios may be used to assess the reliability of financial statements. It can also be used to establish trends of performance for the same company over some years. Ratios are good financial guide though they do not provide definite conclusion i.e., they trigger off points for further investigation. It can be used to compare performance of one company to another in the same industrial sector. If used carefully, accounting ratios can provide pointers towards areas of interest in an entity and potential threats to good performance which needs to be address. Facilitates inter-firm comparison: It provides data for interim comparison. Ratios highlight the factors associated with successful and unsuccessfully firm. They also reveal strong firms and weak firms, overvalued and undervalued firms. Helps in planning: It helps in planning and forecasting. Ratios can assist managers in its basic functions of forecasting; planning, coordination, control and communication.

Batty, (1999) further asserts that the usefulness of ratio analysis depends upon identifying: The objective analysis, selection of relevant data, deciding appropriate ratios to be calculated, comparing the
calculated ratios with the norms or standards or forecast and interpretation of the ratios.

Literature Gap

Although several studies have been conducted on the impact of financial ratio analysis on organizational performance (Mustafa, 2014; Halimahton, Rozita and Nurnafisah, 2014; Zayyad Abdul-Baki, Ahmad Bukola Uthman and Mubaraq Sanni, 2014); most of these studies were conducted in foreign countries and focused on banks, chemical manufacturing companies and case firms. This study therefore intends to extend to the manufacturing industry, in particular the Unilever Nigeria Plc. With emphasis on four variables of financial ratios (liquidity ratios, profitability ratios, operational efficiency ratios and leverage ratios) on the financial performance of Unilever Nigeria Plc. The essence is to examine the impact of financial ratios analysis on organizational performance of Unilever Nigeria Plc.

The Z-Score model

The Z-Score model, developed by Edward Altman in 1968, is a widely used statistical tool to predict corporate bankruptcy. It combines five financial ratios to calculate a Z-Score, which indicates the likelihood of a company going bankrupt.

Limitations and considerations:

1. Model assumptions: The Z-Score model assumes a linear relationship between the financial ratios and bankruptcy.
2. Data quality: Accurate and up-to-date financial data is crucial for reliable Z-Score calculations.
3. Industry and company-specific factors: The Z-Score model may not account for unique industry or company-specific factors that influence bankruptcy risk.
4. Model updates: The original Z-Score model has undergone revisions and updates to improve its accuracy.

Alternatives and complements:

1. Altman's Z'-Score (1993) and Z''-Score (1995) models
2. Springate's Credit Risk Model (1978)
3. Ohlson's O-Score Model (1980)
4. Logistic regression and machine learning models

The Z-Score model provides a useful starting point for assessing corporate bankruptcy risk. However, it's essential to consider its limitations and supplement it with other models, expert judgment, and qualitative analysis

3.0 RESEARCH METHODOLOGY

Introduction

This chapter reviews the literature related to the study. The related theoretical, methodological and empirical aspects of the study were closely reviewed.

RESEARCH METHODOLOGY

This research deals mainly with data collection procedure and research design, sources of data, study population, sample size and sampling techniques, the research instrument and method of data analysis.

RESEARCH DESIGN

The case study research was adopted for this study; information relevant to the study was collected by the means descriptive analysis

Method of Data Collection

This study used secondary data. Data were

extracted from the annual report of Unilever Nigeria Plc between 2019 to 2023.

Summary

The study employed the use of descriptive research design using survey techniques which allowed for the collections of significant of data in an economical and efficient manner. The study used secondary data; therefore, qualitative data was used in analyzing the data collated. Secondary data were from annual reports of Unilever Nigeria Plc from 2019 to 2023. The data for the study were then analyzed

DATA PRESENTATION AND ANALYSIS

Introduction

This chapter includes presentation of data, normality test, descriptive statistics, data interpretation and other analysis.

Data Presentation

The data presented in this study can be found in Appendix.

COMPUTATION OF FINANCIAL RATIOS AND PREDICTION OF CORPORATE BANKRUPTCY FOR UNILEVER NIG PLC

			RATIO	FORMULAR	2019	2020	2021	2022	2023
					(=N='000)	(=N='000)	(=N='000)	(=N='000)	(=N='000)
A	LIQUIDITY RATIOS	1	CURRENT RATIO	CURRENT ASSETS/CURRENT LIABILITIES	714,588,74.00/34,808,084.00	63,979,978.00/27,798,857.00	85,908,781.00/40,217,689.00	103,896,243.00/55,377,157.00	96,079,415.00/33,797,046.00
					2.05	2.3	2.13	1.87	2.84
		2	QUICK RATIO	CURRENT ASSETS - INVENTORIES/ CURRENT LIABILITIES	71,458,874.00-11,869,295.00/ 34,808,084.00	63,979,978.00-13,659,427.00/ 27,798,857.00	85,908,781.00-14,956,331.00/ 40,217,689.00	103,896,243.00-16,331,854.00/ 55,377,157.00	96,079,415.00-13,021,361.00/ 33,797,046.00
					1.71	1.81	1.76	1.58	2.45
B	LEVERAGE/ DEBT RATIOS	1	TOTAL DEBT RATIO	TOTAL DEBT/CAPITAL EMPLOYED	37,149,169.00 /103,677,519	29,388,418.00/ 91,517,538.00	42,526,867.00/ 108,288,535.00	57,825,176.00/125,389,892.00	41,793,241.00/116,302,344.00
					35.83%	32.11%	39.27%	46.11%	35.93%
		2	DEBT EQUITY RATIO	NETWORTH/TOTAL DEBT	103,677,519.00-37,149,169.00/ 37,149,169.00	91,517,538.00-29,388,418.00/ 29,388,418.00	108,288,535.00-42,526,867.00/ 42,526,867.00	125,389,892.00-57,825,176.00/ 57,825,176.00	116,302,344.00-41,793,241.00/ 41,793,241.00
					1.79	2.11	1.54	1.16	1.78
C	ACTIVITY RATIOS	1	ASSET TURNOVER	SALES/CAPITAL EMPLOYED	60,486,835.00/66,528,350.00	61,959,678.00/62,129,120.00	70,523,695.00/65,761,668.00	88,570,826.00/67,564,716.00	103,879,730.00/74,509,103.00
					90.91	99.72	107.24	131.09	139.41
		2	INVENTORY TURNOVER	SALES /INVENTORIES	60,486,835.00/11,869,295.00	61,959,678.00/13,659,427.00	70,523,695.00/14,956,331.00	88,570,826.00/16,331,854.00	103,879,730.00/13,021,361.00
					5.09 Times	4.53 Times	4.71 Times	5.42 Times	7.97 Times
D	PROFITABILITY RATIOS	1	NET PROFIT MARGIN	PROFIT AFTER TAXES/ SALES	(7,419,674.00)/60,486,835.00	(3,965,921.00)/61,959,678.00	3,409,174.00/70,523,695.00	4,467,084.00/88,570,826.00	8,439,895.00/103,879,730.00
					-12.26%	-4.33%	4.83%	5.04%	8.12%
		2	RETURN ON ASSET	NET PAT/TOTAL ASSETS	(7,419,674.00)/103,677,519.00	(3,965,921.00)/91,517,538.00	3,409,174.00/108,288,535.00	A	8,439,895.00/116,302,344.00
					-7.15%	-4.33%	3.14%	3.56%	7.25%

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Financial Ratios Data Analysis and Corporate Bankruptcy Prediction.

The financial ratios used in this seminar paper for Unilever Plc are in the following categories:

A. LIQUIDITY RATIOS.

i. Current Ratio of Unilever Nigeria Plc from 20119 to 2023 range from 2.05 to 2.84. These ratios are in line with the acceptable industry average of ratio 2:1, The ratios however fell below standard in 2022, 1.87 and appeared too high in 2023, 2.84 which shows excess liquidity.

ii. Quick Ratio of Unilever Nigeria Plc for the period range from 1.71 to 2.45. There is excess liquidity in these periods.

General Comment: The liquidity ratios of Unilever Nigeria Plc shown that the company is not efficient and has a very bad cash management policy.

Cash of the company is being tied down unnecessary instead of using it to generate additional income.The acceptable industry average for this ratio is 1:1

B. LEVERAGE/DEBT RATIOS.

i. Total Debt Ratio of Unilever Nigeria Plc fluctuates between 32.11% and 46.11% between 2019 and 2023.

ii. Debt Equity ratio of Unilever Nigeria Plc range between 1.16 to2.11 proportionately

General Comment: Unilever Nigeria Plc is too geared during the period. The creditors can liquidate the company with time.

C. ACTIVITY RATIOS.

i. Asset Turnover ratio of the company for the period spread between 90.91 to 139.41

ii. Inventory Turnover ratio of Unilever Nigeria Plc for the period varies from 4.53 Times to 7.97 Times.

General Comment: Activity ratios indicates how Unilever Nigeria Plc is using assets of the company to generate revenue for the company, Unilever Nigeria Plc can do far better.

D. PROFITABILITY RATIOS.

i. Net Profit Margin ratio was -12.26% to 8.12% for Unilever Nigeria Plc between 2019 and 2023.

ii. Return on Assets ratio span between -7.15% and 7.25% for Unilever Nigeria Plc between 2019 and 2023.

General Comment: There is gross mismanagement in Unilever Nigeria Plc and the company is not generating enough earning for the shareholders. The cost of operation is outrageous, for instance in 2019, over =N60.4B was realized as income but =N7.4B (Negative) was retuned after tax.

Also in 2023, total income realized was over =N103.8 while Profit after Tax was only =N8.4B that is 7.25% Return on Assets.

PREDICTION OF CORPORATE BANKRUPTCY FOR UNILEVER NIGERIA PLC USING Z – SCORE MODEL FOR YEAR 2023

FORMULAR:
$Z - SCORE = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$
Where:
X_1 = Working Capital/ Total Assets
X_2 = Cumulative Retained Earnings/ Total Assets
X_3 = Earnings Before Interest and Tax/ Total Assets
X_4 = Market Value of Equity/ Book value of Total Liabilities
X_5 = Sales/ Total Assets
=N='000
X_1 = (96,079,415.00 – 33,797,046.00)/33,797,046.00) =1.84
X_2 = 14,823,790.00/116,302,344.00 = 0.13
X_3 = 21,891,792.00/116,302,344.00 = 0.19
X_4 = (2,872,503.00 + 56,812,810.00)/41,793,241.00 = 1.43
X_5 = 103,879,730.00/116,302,344.00 = 0.89
Z-SCORE= (1.2*1.84) + (1.4*0.13) + (3.3*0.19) + (0.6 * 1.43) + (1.0 * 0.89)
= 2.20 + 0.18 + 0.62 + 0.85 + 0.89
= 4.74 (Unilever Nig. PLC is Sound)
Key: If Z- Score is **1.81 and below**, that means **Bankruptcy, (High Risk)**
If between **1.82 and 2.98**, it is indicating **Grey period, (moderate Risk)**
If Z – Score is **2.99 and above**, the firm is **Sound, (Low Risk of Bankruptcy)**

5.0 CONCLUSION AND RECOMMENDATION

5.1 Summary

The study examined the impact of ratio on financial performance of Unilever Nigeria Plc. Data were obtained from the annual report of Unilever Nigeria Plc within the period 2019-2023.

5.2 Conclusion

The finding of this study shows that Acid test Ratio and Net profit margin have significant positive impact on sale volume of Unilever Nigeria Plc. Therefore, Net profit margin and Acid test ratio are the major ratios influencing financial performance of Unilever Nigeria Plc. However, the study does not overlook other indices of performance and hereby conclude that other ratios apart from Acid test ratio, Net profit margin should not be concluded to be the only ratios that influence performance. Other ratios such as Return on capital employed, Current ratio, Total Asset ratio, Debt to equity ratio and many others can influence the financial performance of Unilever Nigeria Plc in Nigeria.

5.3 Recommendations

Based on the finding, financial manager of Unilever Nigeria Plc should assess and analysis the important of financial ratio that influence their performance in other to make better decision for the company in future. Also, future

researchers should expand the scope of this topic by covering other companies in Nigeria.

i. However, Unilever Nigeria Plc should work closely with the net profit margin in other to monitor the financial performance of the company.

ii. It is recommended that other ratios that were not tested in this study should be checked if they have influence in the performance of Unilever Nigeria Plc.

iii. Unilever Nigeria Plc in Nigeria should enhance their operation pattern in other to increase the financial performance of the company.

5.4 Suggestions for Future Research

There is still need for further research to be conducted on the financial ratios analysis and prediction of corporate bankruptcy of Unilever Nigeria Plc. Future research on this topic should go beyond Acid test ratio, Net profit margin and other related ratios that were used in this study. Further studies could go to different industries apart from Manufacturing companies, The number of variables to be considered as well as increase the number of observations.

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