iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 12 **Issue:** VI **Month of publication:** June 2024

DOI: https://doi.org/10.22214/ijraset.2024.63389

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 12 Issue VI June 2024- Available at www.ijraset.com

Financial Analysis of the Coca-Cola Company

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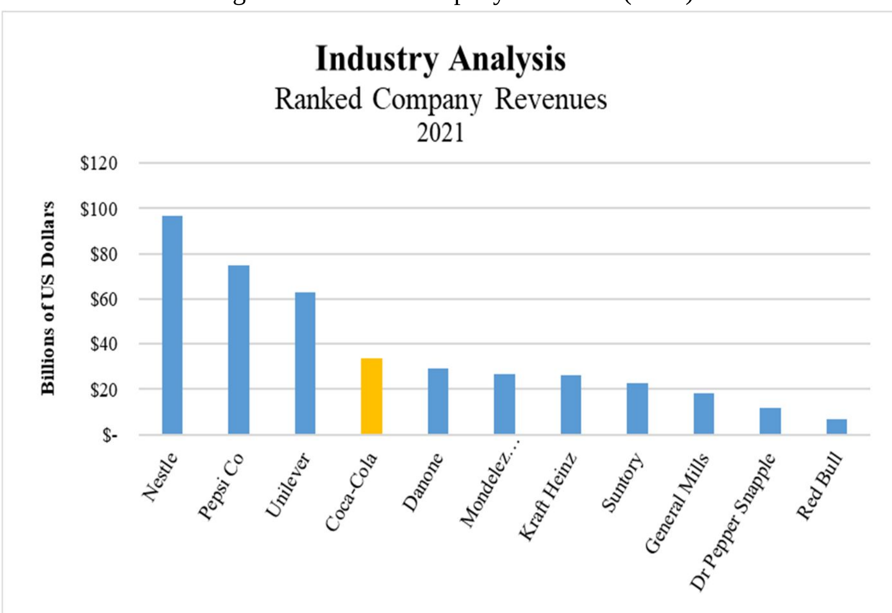
***Abstract:** A thorough ass essment of Coca-Cola's financial stability, performance, and sustainability in the worldwide beverage market is included in the financial study. Key financial measures from recent fiscal seasons are examined in this analysis, including trends in revenue, profitability ratios, liquidity ratios, and solvency ratios. Coca-Cola's operational effectiveness and financial stability was evaluated by carefully examining its annual reports, balance sheets, income statements, and cash flow statements. The report provides insights into Coca-Cola's market competitiveness and strategic positioning by highlighting the company's revenue growth trends, cost management techniques, and profit margins.*
***Keywords:** Financial Analysis, Financial stability, Operational Effectiveness,*

I. INTRODUCTION

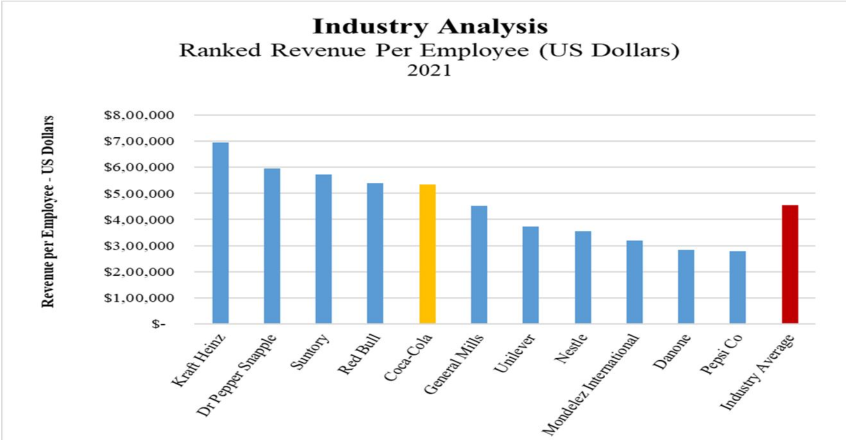
The Coca-Cola company is well established and supplies the product to more than 200 countries and regions (The Coca-Cola Company, 2021). It possesses 500 brands worldwide with a brand value of total of 81.56 billion U.S. dollars (The Coca-Cola Company, 2021). Globally the company has altogether 7,00,000 employees including bottling partners, which fetches more economic opportunities for the local population (The Coca-Cola Company, 2021).
The non-alcoholic beverages brands increased their market share by 24% last year, which is half the size of Coca-Cola's 49.9% share (Bhushan, 2020). The company released its monetary year 2020 results, which reported the company's net operating revenue to be $33 billion (Buehler, 2021). The top competitors are Nestle, Pepsi Co. and Unilever with the higher revenues and market share (Figure 1). The two key businesses that assist the company to derive revenue are concentrate and finished product business (Buehler, 2021).

Figure 1: Ranked Company Revenues (2021)



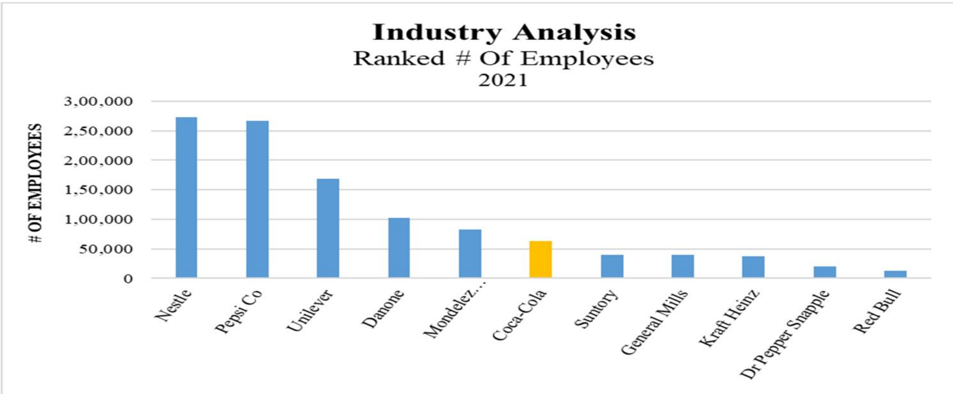
In terms of revenue per employee, Coca-Cola faired low but was well above the industry average given that they have the sixth-highest employee strength (Figure 3). This exhibits that Coca-Cola must work on their recruitments and on keeping competent staff (Figure 2).

Figure 2: Ranked Revenue per Employee (2021)



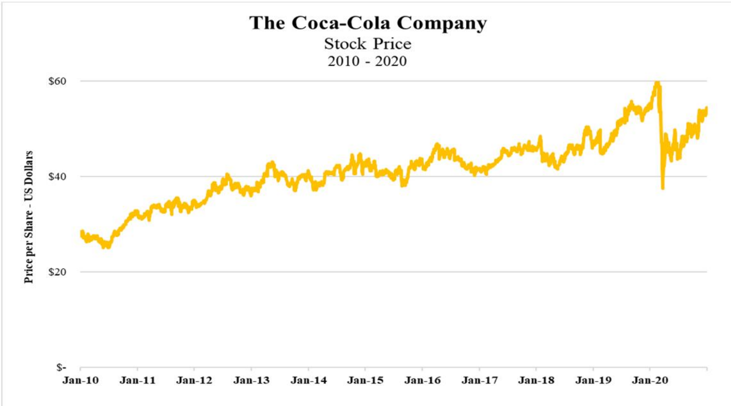
Among competitors, Coca-Cola is ranked sixth in terms of the number of employees (Figure 3). The Global Women's Leadership Council has taken step towards having Coca-Cola be driven by 50% women staff (The Coca-Cola Company, 2021).

Figure 3: Ranked Number of Employees (2021)



Although the stock price graph depicts an upward trend (Figure 4). Over the past decade, the price has descended and has risen substantially varying from $30 to $50 (Figure 4).

Figure 4: Coca-Cola Stock Price (2018 – 2020)



In addition, the study looks at Coca-Cola's debt management, return on equity, and capital structure to determine how appealing the company is to investors and how leveraged it is financially. Coca-Cola's relative performance can be contextually understood by benchmarking against peers in the industry. Additionally taken into account are the effects of global market dynamics, currency fluctuations, and macroeconomic factors on Coca-Cola's financial results.

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In order to support strategic planning and well-informed decision-making, this financial analysis attempts to give stakeholders—including investors, financial analysts, and corporate managers—a thorough grasp of Coca-Cola's current financial situation and potential future growth. Recommendations for improving long-term growth and financial success in the face of shifting market conditions are provided in the paper's conclusion.

II. RESEARCH METHODOLOGY

1) *Data Collection:* Gather financial data from Coca-Cola's annual reports, balance sheets, income statements, and cash flow statements for recent fiscal years.
2) *Quantitative Analysis:* Calculate and interpret key financial ratios, including profitability, liquidity, solvency, and efficiency ratios.
3) *Trend Analysis:* Analyze historical financial trends to identify patterns and anomalies in revenue, expenses, and profit margins.
4) *Comparative Analysis:* Benchmark Coca-Cola's financial metrics against those of industry peers to assess relative performance.
5) *Qualitative Assessment:* Review market reports, industry analyses, and recent news to understand the broader economic and competitive context.
6) *Risk Evaluation:* Examine debt levels, interest obligations, and financial leverage to evaluate the company's risk profile.
7) *Forecasting and Modeling:* Use financial models to project future performance based on historical data and current market conditions.

III. MAIN SECTION – ANALYSIS

Table 1: Income Statement Information (2018 – 2020)

(As Percentage of 2018 Data)			
INCOME STATEMENT INFORMATION	**2018**	**2019**	**2020**
Total Revenue	100%	111%	99%
Cost of Goods Sold	100%	113%	101%
Gross Profit	100%	109%	97%
Total Operating Expenses	100%	112%	100%
Interest Expense	100%	103%	156%
Income Tax Expense	100%	112%	102%
Net Income	100%	91%	73%

Table 2: Balance Sheet Information (2018 – 2020)

(As Percentage of 2018 Data)			
BALANCE SHEET INFORMATION	**2018**	**2019**	**2020**
Total Current Assets	100%	103%	124%
Total Property, Plant, and Equipment	100%	103%	95%
Total Assets	100%	102%	98%
Total Current Liabilities	100%	117%	93%
Total Non-Current Liabilities	100%	103%	75%
Total Liabilities	100%	101%	105%
Total Stockholders' Equity	100%	102%	92%
Total Liabilities and Stockholders' Equity	100%	94%	98%

Cola-Cola was showing growth for two consecutive years until 2020 when 12% dip was observed in the revenue (Table 1). The gross profit rose by 9% in 2019 but decreased in 2020 showing that the company is growing slowly (Table 1). The interest rate gradually increased whereas the income tax expense was paid out in small percentages (Table 1). Overall, the company did not make enough profits in the span of three years (Table 1). The total assets increased by 2% in the year 2019 but dropped by 4% in 2020,indicating a cash crunch and a long-term dip in the revenue (Table 2). The stockholder's equity was on negative side showing that Coca-Cola's liabilities exceed their assets (Table 2).

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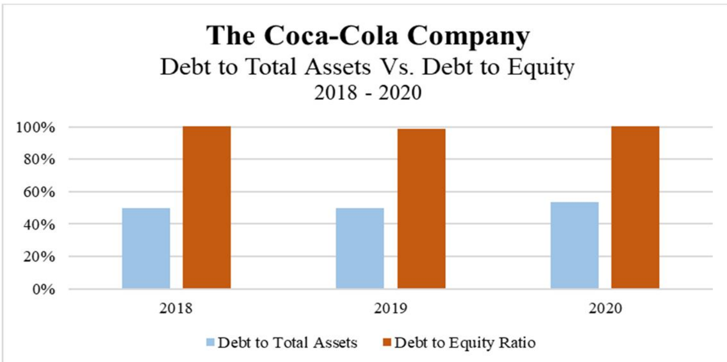
IV. COVERAGE

Table 3: Coverage Ratios (2018 – 2020)

COVERAGE	2018	2019	2020
Debt to Total Assets	50%	50%	53%
Debt to Equity Ratio	100%	99%	115%
Times Interest Earned	2.1	2.0	1.6

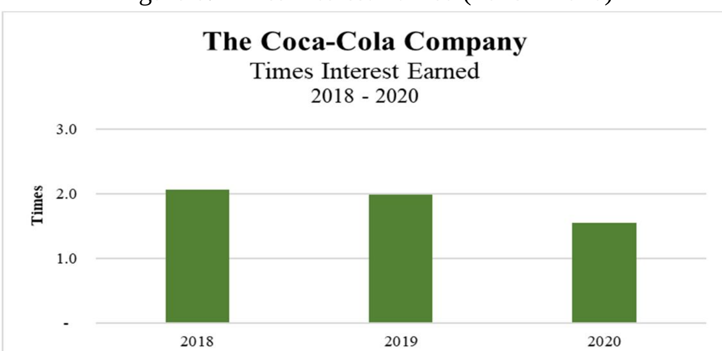
1) *Total Debt to Total Assets:* The ratio remained around 50% in the last three years which indicates financial stability (Table 3). A ratio of approximately 50% of Total Debt over Total assets implies that Coca-Cola has twice as many assets as liabilities (Table 3). This is used to evaluate the risk of the company by the analysts, stakeholders and creditors (My Accounting Course, 2021). As the DTA of the company is less than 1 it signifies that it has more assets than liabilities. (My Accounting Course, 2021). However, in the year 2020 a DTA of Coca-Cola company has not increased substantially which is an indication of funding of assets through debt (My Accounting Course, 2021).
2) *Debt to Equity:* The ratio remained nearly 100% in 2018 and 2019 which indicates that Coca-Cola company's assets are equally funded byboth equity and debt (Table 3). A higher debt to equity ratio indicates that more debt financing is used than investor financing in asset building which indicates the company to be risky (My Accounting Course, 2021). However, the ratios need to be compared with industry standards (My Accounting Course, 2021). In 2020, there is a slight rise in the ratio indicating that the company has borrowed more funds since the total assets have reduced as compared to 2019(My Accounting Course, 2021).

Figure 5: Debt to Total Assets Vs. Debt to Equity (2018 – 2020)



3) *Times Interest Earned:* Higher ratios are considered more favourable than smaller ratios (My Accounting Course, 2021). Overall, the ratio is on a declining trend. In 2020, the ratio has declined by 20% (Table 3). Any company having 2.5 or lower ratio is considered under the high-risk category (My Accounting Course, 2021). In the case of Coca-Cola, the ratios arebelow 2.5 indicating the investors to be precautionary before investing (My Accounting Course, 2021).

Figure 6: Times Interest Earned (2018 – 2020)



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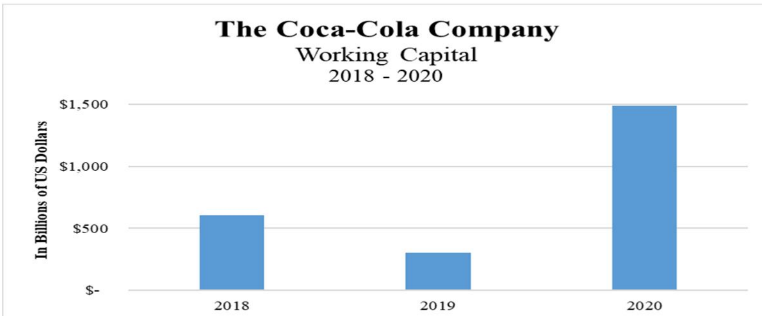
V. LIQUIDITY

Table 4: Liquidity Ratio (2018 – 2020)

LIQUIDITY	2018	2019	2020
Working Capital	$ 607	$ 306	$ 1,488
Current ratio	$ 1.26	$ 1.11	$ 1.69
Quick ratio	$0.95	$0.83	$0.71

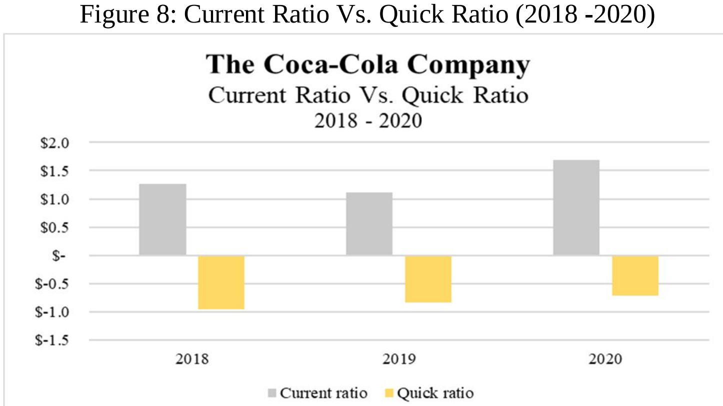
1) *Working Capital:* Positive working capital is a good indicator, as it means that the business is about to meet its short-term obligations with its liquid assets (My Accounting Course, 2021). Even though there has been a 50% decline in the working capital in 2019 as compared to 2018, the company in 2020 managed its assets well which clearly indicates that the working capital increased 4 times (Table 4). The faster increase in Coca-Cola Co's current assets than its current liabilities, led to an enhancement in the company's working capital (CSI Market Company, 2021). A negative working capital shows possibilities of a liquidity crisis (My Accounting Course, 2021).

Figure 7: Working Capital (2018 – 2020)



2) *Current Ratio:* The company's current ratio is greater than 1 for three consecutive years which shows the good financial condition of a company (Table 4). Even though the company observed a slight dip in 2019,it recovered withthe current ratio falling between the ideal industry standard of 1.25 to 2 in 2020(My Accounting Course, 2021). The increase in 2020 is due toa surge in current assets by 21% and a decrease in current liabilities by 20% (Table 4). A positive ratiodemonstrates that the company can pay the current liabilities and still be left with current assets (My Accounting Course, 2021).
3) *Quick Ratio:* Coca-Cola company has quick ratio or acid Test Ratio less than 1 during the period of 2018 - 2020 which is a point of concern (Table 4). It indicates that the company does not have sufficient quick assets to pay off its current liabilities (My Accounting Course, 2021). This shows that the company will have to sell its non-current assets in case current liabilities fall due for repayment (My Accounting Course, 2021). The company should ideally have Quick Ratio equal to 1 indicating that the business has in its possession enough assets which may be immediately liquidated for paying off the current liabilities (My Accounting Course, 2021).

Figure 8: Current Ratio Vs. Quick Ratio (2018 -2020)



VI. ACTIVITY

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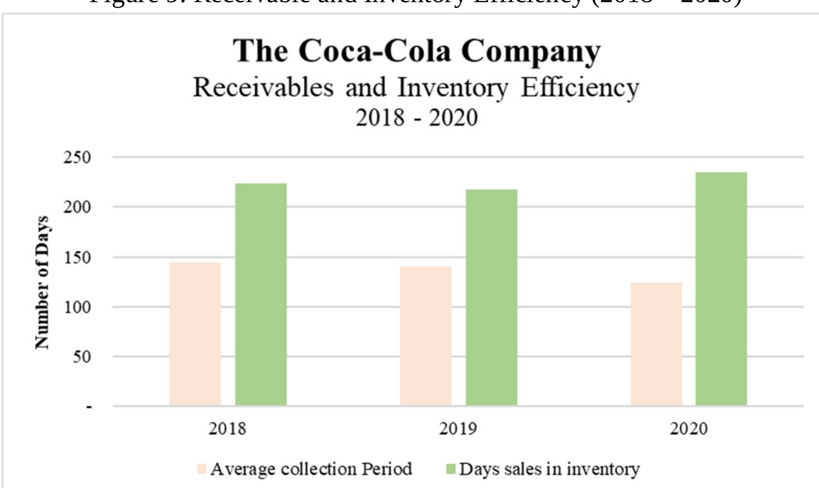
Table 5: Activity Ratio (2018 – 2020)

ACTIVITY	2018	2019	2020
Receivable Turnover	2.52	2.60	2.94
Average collection Period	144.84	140.57	124.32
Inventory Turnover	1.63	1.68	1.55
Days sales in inventory	223.65	217.48	235.22

1) *Receivable Turnover Ratio:* There is an increase in the ratios of Coca-Cola company in the last three years which is positive for the company (Table 5). As compared to the first two consecutive years, the ratio improved in the year 2020 (Table 5). In 2018 and 2019 the company was able to collect its credit sales 2.5 times approximately a year, whereas in 2020 the ratio almost touched 3 times recovery in a year (Table 5). This indicates that the company is efficient in collection of its average receivables (My Accounting Course, 2021). As the company can collect cash from customers sooner, it will be able to use that cash to pay bills and other obligations in time (My Accounting Course, 2021).
2) *Average Collection Period:* The number of days of collection has reduced from 145 to 124 approximately(Table 5). In 2020, 124 days indicates that customers pay their credit to the company every 124 days on average (Table 5). The collection period has dropped by 16 days year over year showing improvement (Table 5). The company needs to adjust its credit policies to lower the collection period down and be able to meet its short-term obligations (My Accounting Course, 2021). However, it is imperative to check the collection period of this company with the Industrial Standard (My Accounting Course, 2021).
3) *Inventory Turnover Ratio:* Inventory turnover is a measure of how efficiently and effectively the company can sell the inventory it buys (My Accounting Course, 2021). The change in inventory turnover ratio from 1.66 in 2018 to 1.55 in 2020 is an indication that the company stocks can be sold 1.66times in a year (Table 5). It also implies that it took Coca-Cola approximately 7 months to sell its entire inventory in 2020 (My Accounting Course, 2021). An ideal inventory Turnover Ratio is between 5 – 10 which indicates that you sell and restock your inventory every 1-2 months (My Accounting Course, 2021). Coca Cola Inventory ratio is less than the industry average which shows thatthe company does not have good inventory control (Table 5).
4) *Days Sales in Inventory:* Number of days the inventory remains in stock has increased from 223 days in 2018 to 235 days in 2020 for Coca-Cola Co (Table 5). This is important to creditors and investors for three main reasons which are value of inventory, liquidity, and cash flows of the company (My Accounting Course, 2021). Older the inventory more obsolete it is and its value will be less than the current fresh inventory (My Accounting Course, 2021). As comparative to ideal industry days, Coca Colas Inventory is blocked for 235 days which is not good for the company (Table 5).

Figure 9: Receivable and Inventory Efficiency (2018 – 2020)



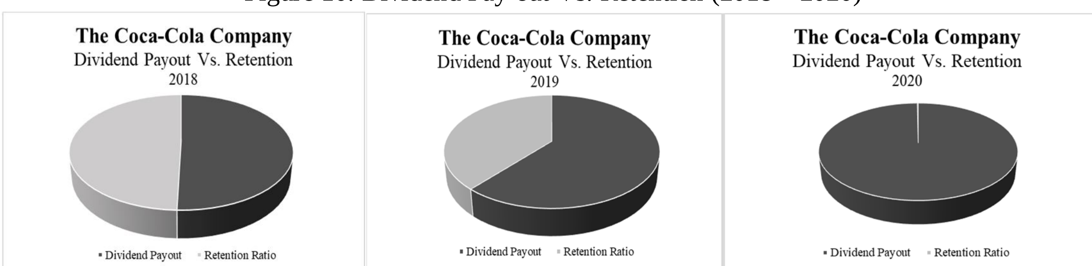
VII. MARKET

Table 6: Market Ratios (2018 – 2020)

MARKET	2018	2019	2020
Dividends per Share	$ 1.70	$ 1.88	$ 2.46
Dividend Payout	50.5%	61.4%	99.8%
Retention Ratio	49.5%	38.6%	0.2%
Dividend Yield	3.8%	3.7%	4.9%
Price Earnings	13.45	16.63	20.24
Earnings per Share	$ 3.38	$ 3.06	$ 2.47

1) *Dividends per Share:* It has increased each year from 2018 to 2020 which represents the company beliefs that its earnings growth can be sustained (Table 6). The amount paid out by the company in dividend directly translates to the shareholder's income (Chen, 2021). This is a significant factor for the investors (Chen, 2021). Hence by an increasing dividend per share year over year it indicates that Coca Cola aims to keep the income of the shareholders a priority.
2) *Dividend Pay-out:* Dividend pay-out has doubled from 2018-2020 which implies that Coca Cola's priority is to reward all its stakeholders (Table 6). This is possible only if the company is confident and supported by a stable business (Flannelly, 2021). This ratio exceeds the ideal Industry pay-out ratio of somewhere between 30% - 50% (Flannelly, 2021). In 2020 the company has not retained any portion of profits for its reinvestments or reserves (Flannelly, 2021).
3) *Retention Ratio:* As the Dividend Pay-out increased by two times the Retention Ratio is bound to indicate a decreasing trend (Table 6). In 2020, due to DPS being 99.8%, the retention ratio is 0.2% which reflects that company does not need money for investing earnings to grow rapidly (Table 6). Such low retention ratios are not ideal as per industrial standards (Murphy, 2021).

Figure 10: Dividend Pay-out Vs. Retention (2018 – 2020)



4) *Dividend Yield:* The dividend yield for Cola-Cola Co. has increased constantly from 2018 – 2020 which is good for the investors (Table 6). With nearly 31% increase in dividend yield from 2018-2020, it looks encouraging (Table 6). Yield-oriented investors will generally look for companies that offer high dividend yields, but it is importantto understand the circumstances leading to high yield as a higher dividend yield could be the result of a big drop in the company's share price (Grant, 2021).
5) *Price Earnings:* Price Earnings ratio ought to increase as EPS is declining year over year from 2018 –2020 (Table 6). As the stock prices have increased in the last three years the price earnings ratios are showing growth (Fernando, 2021). A high PE could indicate that the company's stock prices are high and possibly overvalued. The stakeholders are willing to pay a higher share price today because of growth expectations in the future (Corporate Finance Institue, 2021).
6) *Earnings Per Share:* Earnings per share is showing a declining trend over the period of three years due to the reduction of company profits from 709 billion to 518 billion, a decline of about 27% due to major increase in interest expenses by approximately 52% and decrease in revenue by 10% with the number of shares outstanding remaining constant (Table 6).

VIII. PROFIT

Table 7: Profit Ratios (2018 – 2020)

PROFIT	2018	2019	2020
Profit Margin	7.6%	6.2%	5.6%
Return on Assets	5.3%	4.7%	3.9%

1) *Profit Margin:* This is one of the most common ratios to understand the performance of the company. Coca-Cola's profit margin has reduced from 7.6% in 2018 to 5.6% in 2020. With a decrease in turnover and increase in operating and financing costs the profit margins have reduced by 26% which is a point of concern (Table 7). Comparative to industry average theprofit margins are quite less (Brex, 2020). Management has to rework on the strategy in order to ensure that the margins reach near the industry standards (Brex, 2020).

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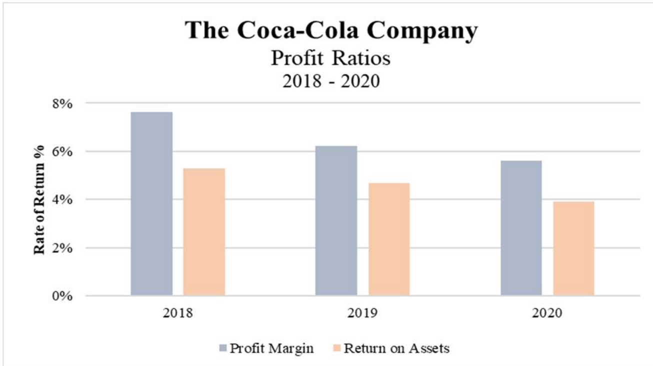
2) *Return on Assets:* Due to decrease in the net profits and total assets remaining almost constant for last three years, a dip in the return on assets curve was observed by 26% approximately (Table 7). Comparing to ideal industrial ratios, Coca Cola return on assetspercentage being 3.9% is less than average (Birken & Curry, 2021). This gives insights to the managers or analysts on how efficiently the company is managing its assets to generate revenue (Birken & Curry, 2021). Coca Cola has a low return on assets ratio (Table 7).

Figure 11: Profit Ratios (2018 – 2020)



IX. RECENT NEWS ABOUT COCA-COLA

In the second quarter, the sales of Coca-Cola grew above expectations and non-alcoholic beverage maker elevated its revenue forecast for a year (Pulley, 2021). The company's organic sales showed growth by 37% in the quarter ended in the first week of July (Pulley, 2021). The business analysts had been expecting 29.3% rise (Pulley, 2021). The result of this is being used as an evidence to reopen the diners and stadiums (Pulley, 2021). In short, all the public venues where the Coca-Cola's drinks are decanted (Pulley, 2021).

X. RECOMMENDATIONS

1) *Boost Operational Efficiency and Profit Margin:* Increase operational efficiency and profit margins by implementing more effective cost control strategies.
2) *Improve Debt Management:* To save expenses and boost cash flows, concentrate on eliminating high-interest debt.
3) *Strategic Investments:* To ensure long-term success, set aside a percentage of profits for innovation and investments in high-growth sectors.
4) *Optimise Working Capital:* To increase liquidity and decrease working capital days, optimise inventory management and collection procedures.
5) *Take Advantage of Market Opportunities:* To increase revenue and market share, take advantage of new customer preferences and industry trends.
6) *Promote Dividend Policy Transparency:* To guarantee sufficient money for reinvestment while compensating shareholders, strike a balance between dividend payments and retained earnings.
7) *Diversify Your Revenue Streams:* Look into and finance new product categories and markets to help offset

XI. CONCLUSION

The top line of the Coca-Cola company has not been showing any increase in revenue. The turnover has almost remained constant with substantial increase in expenses. The company has adequate coverage of assets over liabilities. It has twice as many assets as liabilities which is an indication of financial strength and stability. However, the company needs to manage its high interest obligations that is impacting its cash flows.

The company has not ploughed back its profits in the year 2020 which seems that the shareholders were their priority. This is not a general market practice. Coca-Cola should have retained a certain percentage of its profits forfuture growth and investment opportunities. Also, with interest liabilities that have increased by 50% in 2020, it is better for the company to retain the profits and pay off its debt obligations to reduce the finance cost and increase the margins helping in overall increase in the profits of the company.

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