

Financial Management for Business Sustainability

BMSP4011

Financial Analysis of J Sainsbury plc (2024 - 2025)

Student's Name: Denis Vasilica Craciun

Student ID:2528543

Submission Date 28/04/2026

Table of Contents

1. Introduction.....	3
2. Ratio Analysis and Results	3
2.1 Profitability Ratios	3
2.2 Liquidity Ratios.....	4
2.3 Efficiency Ratios	5
2.4 Gearing and Solvency Ratios	6
2.5 Investment Ratio	6
3. Why Performance Improved.....	7
4. Recommendations.....	8
5. Conclusion	8
References.....	10
Appendix.....	12
Sainsbury's Group Income Statement (2024-2025).....	12
Sainsbury's Group Balance Sheet (2024-2025).....	13

1. Introduction

J Sainsbury plc (Sainsbury's) is a leading supermarket in the UK, operating in a highly competitive retail market, competing with other major retailers, including Tesco, Asda and Morrisons. Ratio analysis is a fundamental technique for measuring business performance. Atrill and McLaney (2021) state that ratio analysis assists users of financial statements to make meaningful assessments of the financial performance and stability of a business. This report analyses the financial statements of Sainsbury for the year ended 1st March 2025 and 2nd March 2024. The report examines the business's profitability, liquidity, efficiency and gearing ratios. The report concludes with an analysis of why the performance has changed and some suggestions on how the business can improve its financial performance and enhance its financial sustainability in the future.

2. Ratio Analysis and Results

2.1 Profitability Ratios

These ratios indicate the efficiency of a business in generating profit or return on its owners' and shareholders' investments (Drury, 2018). To measure Sainsbury's profitability across the two years, three ratios are employed.

Ratio	Formula	2025	2024	Commentary
Gross Profit Margin	$\text{Gross Profit} \div \text{Revenue} \times 100$	6.77%	6.48%	Improved – cost of sales managed more effectively
Net Profit Margin	$\text{Profit after Tax} \div \text{Revenue} \times 100$	0.74%	0.43%	Nearly doubled – strong bottom-line improvement
Return on Capital Employed (ROCE)	$\text{Operating Profit} \div \text{Capital Employed} \times 100$	6.83%	5.47%	More profit generated per pound of capital used

Sainsbury's gross profit margin improved from 6.48% in 2024 to 6.77% in 2025. This suggests that the retailer improved its cost of sales management during the year. Revenue grew from £32,238m to £32,812m, an increase of £574m, while gross profit rose from £2,090m to £2,221m. The net profit margin also improved notably from 0.43% to 0.74%. This almost doubled margin implies that the company managed its overheads and administration costs better in 2025 than 2024. KPMG (2024) notes that in 2023 and 2024 UK grocery retailers faced cost pressures from food inflation and energy prices, so Sainsbury's improvement in profitability is particularly commendable. The ROCE has also improved from 5.47% to 6.83%. This indicates that the company is now earning more operating profit from each pound invested in the business, which is a good sign of internal efficiency improvements within the business.

2.2 Liquidity Ratios

Liquidity ratios provide an indication of a company's ability to meet its short-term obligations (Brigham and Houston, 2019). Both liquidity ratios improved in 2025, which is a positive development. However, they are still below the recommended levels of 1.5 to 2.0 for the current ratio, and 1.0 for the quick ratio (Bragg, 2022).

Ratio	Formula	2025	2024	Commentary
Current Ratio	$\text{Current Assets} \div \text{Current Liabilities}$	0.74	0.66	Improved but still below the 1.5–2.0 benchmark
Quick (Acid Test) Ratio	$(\text{Current Assets} - \text{Inventories}) \div \text{Current Liabilities}$	0.57	0.49	Improved; still below the 1.0 benchmark

Both the current ratio (0.66 to 0.74) and the quick ratio (0.49 to 0.57) have increased. These ratios might seem low, but it is not uncommon for large grocery retailers to have ratios below

one. According to Fridson and Alvarez (2022), large retailers tend to have a negative working capital as they receive payment from customers at the time of the sale, before paying their suppliers on credit. However, Sainsbury's should continue to watch its short-term cash position, particularly if economic growth slows and consumer confidence falls, as this may put additional pressure on the retailer.

2.3 Efficiency Ratios

Efficiency ratios demonstrate the effectiveness of a company's asset and working capital management to drive sales (Arnold and Lewis, 2019).

Ratio	Formula	2025	2024	Commentary
Inventory Turnover	$\text{Cost of Sales} / \text{Inventories}$	15.72×	15.64×	Marginally faster – stock sold more quickly
Receivables Days	$\text{Trade Receivables} / \text{Revenue} \times 365$	6.4 days	6.6 days	Collecting money from customers slightly faster
Payables Days	$\text{Trade Payables} / \text{Cost of Sales} \times 365$	63.0 days	61.6 days	Taking slightly longer to pay suppliers

Inventory turnover was extremely consistent at 15 times for both years. This is entirely normal for a food retailer selling mainly fresh and perishable items that need to be sold and replaced quickly. Receivables days declined slightly from 6.6 days to 6.4 days; this means that Sainsbury's is efficiently collecting cash from its customers. This is typical of a supermarket where most transactions involve cash or credit card payments on the day of purchase. The payables days rose from 61.6 to 63.0 days, which shows that the company is taking longer to pay its suppliers. While this helps with conserving cash in the short term, Arnold and Lewis

(2019) argue that very long payment terms could strain supplier relationships and compromise the integrity of the supply chain.

2.4 Gearing and Solvency Ratios

Gearing ratios reflect how a company is financed, between debt and equity (Watson and Head, 2020).

Ratio	Formula	2025	2024	Commentary
Gearing Ratio	$\frac{(\text{Borrowings} + \text{Leases})}{\text{Equity}} \times 100$	99.4%	95.4%	Slightly higher – increased reliance on debt
Interest Cover	$\frac{\text{Operating Profit}}{\text{Finance Costs}}$	2.58×	2.21×	Improved – company more able to cover interest

The gearing ratio rose slightly from 95.4% in 2024 to 99.4% in 2025. To a large extent, this can be explained by the fact that the company has significant lease liabilities that are recorded on the balance sheet according to the IFRS 16 standards (IASB, 2016). A gearing ratio of approximately 100 percent indicates that the company is hugely relying on debt, which puts it at risk. However, interest cover ratio went up to 2.58 times as compared to 2.21 times. It implies that the operating profit generated by Sainsbury in 2025 covers the interest payments 2.58 times, which is more than 2.21 times in 2024, which results in a greater capacity to fulfil the debt requirements. Watson and Head (2020) suggest that an interest cover ratio greater than 2.0 times is acceptable, with a higher ratio offering more security for lenders and shareholders.

2.5 Investment Ratio

Earnings per share (EPS) is an important investment ratio and represents the profit earned for each ordinary share outstanding (Brealey et al., 2020).

Ratio	Formula	2025	2024	Commentary
Basic Earnings Per Share	Profit after tax / Weighted avg. shares	10.4p	5.9p	EPS nearly doubled – significantly better returns for shareholders

Basic EPS increased significantly from 5.9 pence in 2024 to 10.4 pence in 2025 (up 76%). This is a very positive outcome which shows that the returns to shareholders have improved considerably. Brealey et al., (2020) note that an increase in EPS is generally viewed as a positive signal of improving performance and can serve to instil investor confidence in the company and its management.

3. Why Performance Improved

There are a number of factors that explain why Sainsbury's results improved in 2025 relative to 2024. First, United Kingdom grocery food price inflation started to decline in the financial year 2024 to 2025. This allowed the retailer to better control its cost of sales, which subsequently boosted its gross and net profit margins (ONS, 2025). Second, Sainsbury's continued to expand and invest in its Nectar loyalty programme, which has helped to retain existing customers, win new customers, and contributed to sales revenue growth. Third, the company saw strong growth in its financial services and general merchandise businesses, which generated additional revenue. Mintel (2024) reports that grocery retailers in the UK which focused on digital and loyalty programs performed better than those that did not. These elements, together with effective cost management across all areas of the business, contributed to the overall improvement in the ratio results for 2025.

4. Recommendations

From the ratio analysis, the following suggestions are provided to enhance Sainsbury's future operations and sustainability. First, the business should focus on improving its liquidity. Although the current ratio has improved, it is still below 1.0, which could be problematic in a recession. Increasing cash holdings or decreasing short-term liabilities will enhance the company's resilience (Atrill and McLaney, 2021).

Second, Sainsbury's should keep an eye on its gearing. Its gearing ratio is close to 100%, meaning it is highly leveraged. Lowering debt gradually, or replacing some debt with equity, will reduce the company's financial risk and interest expenses (currently £350m annually).

Third, sustainable investments should be made. Harvard Extension School (2021) notes sustainable finance approaches allow companies to lower future costs and appeal to green investors. Sainsbury's could enhance energy efficiency in its stores and supply chain, which would help lower costs, thereby improving long-term profitability.

Fourth, making fair changes to supplier payment terms could improve supply chain relationships. Although stretching payables days' saves cash in the short term, Sainsbury's should follow the Prompt Payment Code to support small suppliers (UK Government, 2023).

5. Conclusion

This report has demonstrated that Sainsbury's financial results improved between 2024 and 2025. All profit ratios improved with net profit increasing from £137m to £242m. Efficiency ratios remained unchanged, and the interest cover ratio improved. The use of ratio analysis has been a valuable way to analyse the financial performance of the company as it enables financial statements to be expressed in numbers that can be compared across time. The main insights are that Sainsbury's is becoming more profitable and efficient, but it needs to address liquidity and

high gearing levels to remain financially viable. Through debt consolidation and sustainable investments, the company can continue to thrive and create shareholder value.

References

- Arnold, G. and Lewis, D. (2019) *Corporate Financial Management*. 6th edn. Harlow: Pearson Education.
- Atrill, P. and McLaney, E. (2021) *Financial Accounting for Decision Makers*. 9th edn. Harlow: Pearson Education.
- Bragg, S. (2022) *Business Ratios and Formulas: A Comprehensive Guide*. 4th edn. New Jersey: Wiley.
- Brealey, R.A., Myers, S.C. and Allen, F. (2020) *Principles of Corporate Finance*. 13th edn. New York: McGraw-Hill.
- Brigham, E.F. and Houston, J.F. (2019) *Fundamentals of Financial Management*. 15th edn. Mason: Cengage Learning.
- Drury, C. (2018) *Management and Cost Accounting*. 10th edn. Andover: Cengage Learning.
- Fridson, M.S. and Alvarez, F. (2022) *Financial Statement Analysis: A Practitioner's Guide*. 5th edn. New Jersey: Wiley.
- Harvard Extension School (2021) *What is sustainable finance and why is it important?*
Available at: <https://extension.harvard.edu/blog/what-is-sustainable-finance-and-why-is-it-important/> (Accessed: 26 April 2026).
- IASB (2016) *IFRS 16 Leases*. London: International Accounting Standards Board.
- KPMG (2024) *UK Retail Sector Outlook 2024*. London: KPMG LLP.
- Mintel (2024) *UK Grocery Retailing 2024*. London: Mintel Group Ltd.
- ONS (2025) *Consumer Price Inflation, UK: February 2025*. London: Office for National Statistics.

UK Government (2023) *Prompt Payment Code*. Available at:

<https://www.gov.uk/government/publications/prompt-payment-code> (Accessed: 26

April 2026).

Watson, D. and Head, A. (2020) *Corporate Finance: Principles and Practice*. 8th edn.

Harlow: Pearson Education.

Appendix

Sainsbury's Group Income Statement (2024-2025)

J Sainsbury plc

Group Income Statement

Amounts in £m | Figures in parentheses denote charges / losses

	52 wks to 1 Mar 2025	52 wks to 2 Mar 2024*
Revenue	32,812	32,238
Cost of sales	(30,591)	(30,148)
Gross profit	2,221	2,090
Administrative expenses	(1,425)	(1,404)
Other income	108	58
Operating profit/(loss)	904	744
Finance income	67	81
Finance costs	(350)	(336)
Profit/(loss) before tax	621	489
Income tax (expense)/credit	(201)	(181)
Profit/(loss) for the period	242	137
Basic EPS (pence)	10.4p	5.9p
Diluted EPS (pence)	10.2p	5.7p

Sainsbury's Group Balance Sheet (2024-2025)

J Sainsbury plc

Consolidated Balance Sheet

Amounts in £m | Figures in parentheses denote liabilities

	1 Mar 2025	2 Mar 2024
NON-CURRENT ASSETS		
Property, plant and equipment	9,358	9,282
Right-of-use assets	4,455	4,296
Intangible assets	807	806
Other financial assets	769	761
Net retirement benefit surplus	731	690
Total non-current assets	16,199	17,480
CURRENT ASSETS		
Inventories	1,946	1,927
Trade and other receivables	572	582
Other financial assets	612	17
Cash and cash equivalents	2,777	1,987
Assets held for sale	2,527	10
Total current assets	8,449	7,581
Total assets	24,648	25,061
CURRENT LIABILITIES		
Trade and other payables	(5,278)	(5,091)
Borrowings	(72)	(65)
Lease liabilities	(590)	(515)
Taxes payable	(141)	(125)
Provisions	(230)	(113)
Liabilities of disposal group held for sale	(3,136)	—
Total current liabilities	(11,417)	(11,452)
Net current liabilities	(2,968)	(3,871)
NON-CURRENT LIABILITIES		
Borrowings	(1,042)	(1,130)
Lease liabilities	(4,904)	(4,839)
Deferred income tax liability	(429)	(329)
Provisions	(157)	(167)

Total non-current liabilities	(6,580)	(6,741)
Total liabilities	(17,997)	(18,193)
Net assets	6,651	6,868
EQUITY		
Called up share capital	669	678
Share premium	1,448	1,430
Merger reserve	173	568
Capital redemption and other reserves	(54)	955
Retained earnings	4,415	3,237
Perpetual securities	—	—
Total equity – shareholders' funds	6,651	6,868