

Profitability Analysis of Berger Paint Limited: An Empirical Study

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Abstract- Berger paint companies decisions are increasingly influenced by the new drivers of profitability. The fluctuating profitability must be better understood by the firm to make a better strategy. The Primary objective of a business undertaking is to earn profits. Profit earning is considered essential for the survival of the business. Profitability analysis measures how well a firm is performing in terms of its ability to generate profits. Profitability of the firm is highly influenced by internal and external variables, i.e., size of organizations, liquidity management, growth of organizations, component of costs and inflation rate. In this paper an attempt has been made to measure the profitability performance on the basis of selected profitability ratios. The present study is based on secondary data of last 6 years and covers the profitability performance of Berger paint. The Berger Paints domestic market share declined from 11.1% to 13.5%.

Keywords- Profitability, Financial ratios, Operational efficiency, Return on Investment, Operating Profit Ratio

I. INTRODUCTION

The driving forces of Berger Paints - reflect the very spirit of its founder Lewis Berger - who laid the foundations of brand Berger Way back in 1760 in the UK. With modest beginnings in India in 1923, today, Berger Paints India Limited is the second largest paint company in the country with a consistent track record of being one of the fastest growing paint company, quarter on quarter, for the past few years. Undergoing a number of changes in ownership and nomenclature in its 88 year old history in India, the company has come a long way. Starting out as Hadfield's (India) limited, it had just one factory in Howrah, West Bengal. By the close of 1947, Hadfield's was acquired by British Paints (Holdings) Limited, UK and came to be known as British Paints (India) Limited. In 1983, the name of the Company was changed to Berger Paints India Limited. Currently, the majority stake is with the Delhi based Dhingra brothers. Berger Paints has established itself through a long course of time. From these days an annual sales turnover is of Rs.25 lakh, but business revenues today are in excess of Rs.3, 600 crores on a consolidated basis. Its Headquartered at Kolkata,

with 11 strategically located manufacturing units and about 170 sales offices (all including those belonging to the Company's own division and subsidiaries).The company also has an international presence in 3 countries. With employee strength of about 2,500 and a countrywide distribution network of 15,000+ dealers, Berger is acclaimed as a game changer in the sector with a vibrant portfolio of paints and tailor-made customer services in every paint segment. Committed to being a responsible corporate citizen, Berger proactively pursues strategies both within and without that bring multiple societal and environmental benefits to all stakeholders.

II. FINANCIAL TOOLS AND METHODS

In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools is ratio or index. Ratios express the numerical relationship between two or more things. Accounting ratios are used to describe significant relationships, which exist between figures shown on a balance sheet, in a profit and loss account, in a budgetary control system or in any other part of the accounting organization.

SELECT PROFITABILITY RATIO'S FOR ANALYSIS

1. Return on Investment: This ratio is also called Return on Capital Employed. It measures the sufficiency or otherwise of profit in relation to capital employed. Return on Investment is used to measure the operational and managerial efficiency. Return on investment can be computed for measuring the return of various purposes.

2. Gross Profit Ratio: Gross profit ratio is also known as gross margin or trading margin ratio. Gross profit ratio indicates the difference between sales and direct costs. Gross profit ratio explains the relationship between sales and direct costs. Gross profit ratio explains the relationship between gross profit and net sales. The gross profit ratio is expected to be adequate to cover operating expenses, fixed interest charges, dividends and transfer to reserves.

3. Operating Profit Ratio: It is the ratio of profit made from operating sources to the sales, usually shown as a percentage. It shows the operational efficiency of the firm and is a measure of the management's efficiency in running the routine operations of the firm.

4. Net Profit Ratio: This ratio is also called net profit to sales ratio. It measure of management's efficiency in operating the business successfully from the owner's point of view. It indicates the return on shareholders' investments. Higher the ratio better is the operational efficiency of the business concern.

III. STATEMENT OF THE PROBLEM

Ratio analysis plays an important role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. The analysis also reveals whether the company's financial position has been improving or deteriorating over time. Profitability Ratios are used to evaluate management's ability to create earnings from revenue-generating bases within the organization. Profitability Ratios measure the earnings by dividing the earnings by a base, such as assets, sales or equity.

Review of Literature

Sheela S. Christina (2011), made an analysis of study the financial performance of Wheels India Limited Chennai. The study had an analytical type of research design supplemented by secondary data collection method. For this purpose the researcher took the past 5 years data and also checked out for the validity and reliability before conducting the study. The researcher used the financial tools namely ratio analysis, comparative balance sheet and DuPont analysis and also statistical tools such as trend analysis and correlation. Profitability ratio indicated that there was a decrease in the profit level, utilization of fixed assets and working capital in last financial year. Thus the company would take necessary steps to improve sales and profit. Finally the study revealed that the financial performance was satisfactory.¹

Haji hassani. V (2012), presents a study on comparison of financial performance for the period 2006–2009 by using financial ratios and measures of cement companies working in Iran. Financial ratios are divided into three main categories and measures including two indicators. This work concludes that the performance of cement companies on the basis of

profitability ratio is different than on the basis of liquidity ratio, leverage financial.²

Vivek Singla (2013), “A Comparative Study of Financial Performance of SIAL and Tata Steel Ltd”. While analyzing the financial performance of the selected units, the analysis of working capital, analysis of fixed assets and analysis of profitability was included. SAIL and Tata Steel Ltd. both the companies are major players in steel manufacturing sector in India. After making the comparative analysis of both the firms we find that performance of Tata Steel Ltd. is better than the SAIL. It is so because the Net profit of Tata Steel Ltd. is greater than the SAIL similarly the inventory management of the Tata Steel Ltd. is better than the SAIL.³

IV. OBJECTIVE OF THE STUDY

The main purpose of the study is to evaluate the profitability position of Berger Paint Limited in India.

PERIOD OF THE STUDY

The study period of 06 years from 2011-12 to 2016-17 have been selected in order to have a fairly long cyclically well balanced period accepted by most of the researchers for which reasonably homogenous, reliable and up-to-date financial data would be available.

RESEARCH METHODOLOGY

The study is based on secondary data collected from the audited Profit & Loss A/c and Balance Sheet associated with schedules, annexure available in the published annual reports of Berger Paint. The required information was also collected from Capita line data base and also from PROWESS, which is the most reliable and authorized corporate database of CMIE.

CALCULATION OF PROFITABILITY RATIOS (I)

Profitability Ratio	2011-12	2012-13	2013-14
Return on Investments (%)	17.30	16.14	16.15
Gross profit Ratio	10.73	11.22	11.40

¹Sheela S. Christina, “A Study on Financial Performance of Wheels India Ltd- Chennai” *Interdisciplinary Journal of Contemporary Research in Business*, (Feb 2011), Vol.2, Issue 10, Pp: 231-239.

²Hajihassani. V (2012), “A Comparison of Financial Performance in Cement Sector in Iran”. *Inventi Rapid: Microfinance & Banking*, (2012) 4:1-8.10

³ Dr. Singla Vevik. “A Comparative Study of Financial Performance of SAIL and Tata Steel Ltd”. *International Refereed and Indexed Journal for Research mScholars and Practitioners (IJRSR)*, Vol. 2, Issue 1, 2013, pp 2321 -3280

¹Sheela S. Christina, “A Study on Financial Performance of Wheels India Ltd- Chennai” *Interdisciplinary Journal of Contemporary Research in Business*, (Feb 2011), Vol.2, Issue 10, Pp: 231-239.

(%)			
Operating Profit Ratio (%)	11.57	12.14	12.41
Net Profit Ratio (%)	6.66	6.91	6.92

Source: Computed From Annual Reports of BPL

V. INTERPRETATION

The above table shows the calculation of Profitability Ratios from 2011-12 to 2013 -14. In the table it is found out that the Return on Investments in 2011-12 is (17.30 %), 2012-13 is (16.14 %) and 2013 -14 is (16.15 %). The ROI ratio during 2011-12 to 2013-14 satisfies the norm level, as the long termfunds and capital employed is utilized more efficiently. Gross Profit Ratio was marked high (11.40%) in 2013-14, while as it was lowest (10.73 %) in 2011-12. The Gross Profit Ratio in the year 2013-14 shows that the sales mix were increased while in 2011 -12 it was observed that there is a higher proportion of low margin products in the sales mix. The Operating Profit Ratio shows a increasing trend from bottom to top and it was increased (11.57 %) in 2011-12 then (12.14 %) in 2012-13 and (12.41 %) in 2013 -14. Operating Profit Ratio shows an efficiency which is enough to provide good return to the shareholders and investors. The Net Profit Ratio was marked as positive, (6.66 %) in 2011-12, (6.91 %) in 2012-13 and (6.92 %) in 2013 -14.

Figure 1

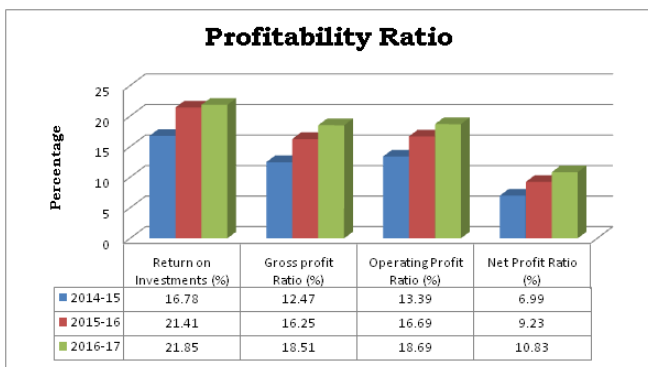


Fig. 1: Representation of Gross Profit Ratio Values from 2011-12 to2013 -14.

The above Fig is based on the profitability ratios pertaining from 2011-12 to 2013 -14. The Fig represents the analysed data for above table in bars in order to make it convenient for better understanding the position of changing ratios calculated in the table.

CALCULATION OF PROFITABILITY RATIOS (II)

Profitability Ratio	2014-15	2015-16	2016-17
Return on Investments (%)	16.78	21.41	21.85
Gross profit Ratio (%)	12.47	16.25	18.51
Operating Profit Ratio (%)	13.39	16.69	18.69
Net Profit Ratio (%)	6.99	9.23	10.83

Source: Computed From Annual Reports of BPL

VI. INTERPRETATION AND DISCUSSION

The above table shows the analysis of profitability ratios ranging from 2014-15 to 2016-17. The above table holds Return on Investments Ratio, Gross Profit Ratio, Operating Profit Ratio, and Net Profit Ratio. The Return on Investments ratio during the study period was observed as positive. This indicates that the ratios are satisfying the standard norm. So the long term funds and capital employed can be utilised efficiently. The Gross Profit Ratio also qualifies the standard norm as there was a highly proportion of margin products in the sales mix. The Operating Profit Ratio was (12.47 %) in 2014-15, (16.25 %) in 2015-16 and (18.69 %) in 2016-17. The Operating Profit Ratio also shows an efficiency which is enables to provide good return to the shareholders and investors and also good for running business of the company. The NPR was found positive in the select period of study, it was (6.99 %) in 2014-15, (9.23 %) in 2015-16 and (10.83 %) in2016-17 The NPR indicates that the operational efficiency of the business concern was highly improved during the period of study because such condition are good in favour for the betterment of shareholders investments.

Figure 2

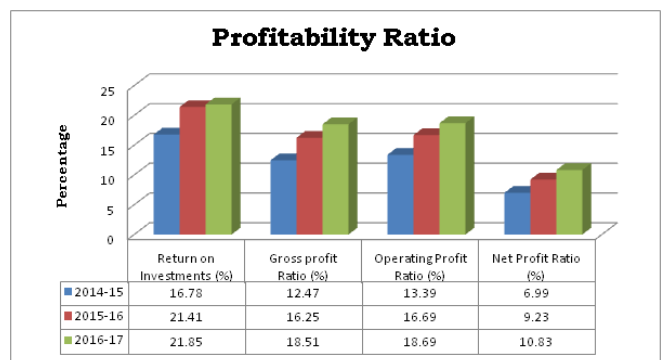


Fig 2: Representation of Gross Profit Ratio Values from 2014-15to 2016-17.

The above Fig highlights the graphical representation of calculated ratios of the above table ranging from 2014 -15

to 2016-17. The Fig also represents the profitability ratio of Berger Paint Limited. The calculated ratios in the above graph were deviated downwards to make better understood the efficiency of the sample company during the sample period.

VII. CONCLUSION

After the analysis of various data, related to Berger paint company in India, founded in theoretical statement, it clear that profitability more or less depends upon the better utilization of resources, cutoff expenses and quality of management function in the products, customer services and to manpower, goodwill and market share. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor's return point of view. These programs are helpful to increase profitability of Berger Paint Company in India in future prospects. If the management or government does not look into it seriously, it can result in loss of jobs and the company will become a sick unit. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. Profitability is the primary motivating force for any economic activity. Business enterprise is essentially being an economic organization; it has to maximize the welfare or the investment of its stakeholders. To this end, the business undertaking has to earn profit from operations. Profitability acts as a yardstick to measure the effectiveness and efficiency of business effort for the growth and success of any business entities The profitability ratio of the Berger paint in the selected years is in all the selected variables is good.

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