

# A Study on Fundamental Analysis of Selected Paint Companies Listed In NSE

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**Abstract-** Investing in stocks is a legal way of increasing one's money. Before investing one must look for the fundamental performance of the company. Investing in stocks has risk but when you go with the help of fundamental performance it will help you to gain without risk. Paint Industry is growing at a rate higher than the GDP growth of our country which made us to do the project. The present study gives the fundamental analysis (percentage analysis, ratio analysis, correlation, BMW model, ranking) of Indian paint Industry.

**Keywords-** Paint, Performance, Risk, BMW model.

## I. INTRODUCTION

Paint is used to decorate, protect and prolong the life of natural and synthetic materials, and acts as a barrier against environmental conditions. Paints may be broadly classified into Decorative paints, applied on site to decorate and protect buildings and other objects, and Industrial coatings which are applied in factories to finish manufactured goods such as cars.

Paint industry in world is over 70,000 years - 100,000 years old. Paint industry in India is over 100 years old. Indian colorants industry has emerged as a key player with a global market share of 15%. Over the years Decorative paint segment (market share of ~75-80%) has grown at a CAGR of 11.4%. Industrial paint segment (market share of ~20-25%) has grown at a CAGR of 7.9%. Overall Paint Industry grow at a CAGR of 10.4% from last 12yrs.

## II. REVIEW OF LITERATURE

**Krunal J. Kakkad and C.M. Thakkar (2020)** analysed Growth of Paint Industries in India. Asian paint is largest company among decor / domestic paint industry whereas Kansoi Nerolac Paints is topmost among industrial paint industries. Growth of paint industry is satisfactory in India

**Kshitija Gandhi (2018)** analyzed to identify overpriced or underpriced securities. The fundamental analysis has a proper framework. For this research Top Down (Economic, Industry and Company Analysis) approach has been adopted. The Indian paint industry is growing in multifold. The innovation

in products like friendly, odor free, and dust & water-resistant paints have attracted large customers.

**Kamaladevi.S (2018)** focused on the liquidity position of selected companies in Indian paint industry. An attempt has been made to understand the abilities of selected companies to pay short term debt obligations, how does these differ and get affected over a sufficient period of time. The major stress has been laid down on studying liquidity ratios of selected top 6 paint companies in India.

**Dr. Manicka Mahesh and S. Saravana Kumar (2016)** found that while the ranking through fundamental ratio analysis, P&G comes first followed by HUL and Emami. Hence investors are suggested to trade and invest in these kinds of scripts so that their return would be maximized as well as their risk would be minimized.

## III. RESEARCH METHODOLOGY

### A. OBJECTIVES

#### PRIMARY

A Study on fundamental analysis of selected paint companies.

#### SECONDARY

- To Study fundamental analysis through BMW model for making investment decisions.
- To study the market price of equity shares' growth through CAGR.
- To study select financial metrics through ratio analysis and ranking the same on their performance.
- To predict the future share price through trend projections.

Impact of Covid and Increase of Traders and Investors in this period is a need. Infrastructural Development efforts by Government Which could help the growth of Paint Industries. India's per capita consumption of paints stood at 4.1 kgs in FY19. Compared to the global average of 13-15 kgs

per capita consumption, India’s per capita consumption of paints is far behind despite the huge size of the market. Thus, there is immense headroom for the domestic market to grow in the long term. The research is focused on secondary information. Data on industries is taken from the historical price data with NSE websites, books, and other resources, selected industries magazines and journals. (www.statista.com, www.investing.com, www.economictimes.com, www.moneycontrol.com, www.screener.com, www.nseindia.com.,)

**B. SAMPLE**

Paint industries that are taken into consideration are as follows

- AKZO NOBEL
- ASIAN PAINTS
- BERGER PAINTS
- INDIGO PAINTS
- KANSAI NEROLAC
- SHALIMAR PAINTS

**C. DURATION OF STUDY**

The period of study is March 2011 to March 2021.

**IV. DATA INTERPRETATION & ANALYSIS**

**CAGR**

Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment’s lifespan.

$$CAGR = [(END\ VALUE \div\ BEGIN\ VALUE) ^ (1 \div N)] - 1$$

**TABLE I CAGR OF FUNDAMENTALS**

10 YR CAGR						
COMPANY	SALES	OPERATING PROFIT	NET PROFIT	MARKET CAP	EPS	EXPENSE
ASIAN	10%	11%	12%	20%	12%	10%
BERGER	10%	15%	16%	37%	12%	10%
AKZO	10%	4%	3%	12%	2%	10%
SHALIMAR	-2%	-13%	-13%	12%	-1%	2%
KANSAI	13%	15%	16%	24%	8%	14%
INDIGO	35%	42%	47%	38%	26%	32%

**INTERPRETATION**

The Above table gives the CAGR of Sales, Operating Profit, Net Profit, EPS and Expense of Paint companies for 10 years. It shows that sales and expense are perfectly correlated

whereas the Profit grows a bit higher than the sales. This shows Asian paints, Berger Paints and Akzo Nobel Grows Similarly at 10%.

**CAGR OF SHARE PRICE**

**TABLE II. CAGR OF SHARE PRICE**

SHARE PRICE CAGR					
Company	Market Price (as on 31/03/2020)	1yr	3yr	5yr	10 yr
ASIAN	1625	10%	14.94%	15.00%	20.45%
BERGER	496	54%	27.42%	26.93%	32.12%
AKZO	2188	0.24	5.47%	9.70%	10.74%
SHALIMAR	50	-0.34	-25.76%	-12.80%	1.09%
KANSAI	366.15	-0.19	-0.81%	10.63%	16.07%

**INTERPRETATION**

This Table shows how the share price of companies have grown over the years. Berger has grown highly in the recent five years at a Five year CAGR of 26.93%.

**SHARE PRICE GROWTH**

**TABLE III GROWTH OF SHARE PRICE**

SHARE PRICE GROWTH	
Company	No of Time Growth
ASIAN	6.43
BERGER	<b>16.21</b>
AKZO	2.77
SHALIMAR	1.11
KANSAI	4.44

**INTERPRETATION**

This gives the data of how much times the share price had grown from 10 years back. Berger’s Share price has grown 16.21 times than its 10 year back price. This shows there had a large scope of profit maximization than other companies.

**CORRELATION WITH MARKET CAP**

**TABLE IV CORRELATION OF FUNDAMENTALS WITH MARKET CAP**

COMPANY	NET SALES	OPERATING PROFIT	NET PROFIT	PE	TOTAL DEBT
ASIAN	98%	98%	98%	91%	99%
BERGER	93%	96%	97%	97%	96%
AKZO	89%	73%	59%	82%	90%
SHALIMAR	-71%	-90%	-91%	-16%	90%
KANSAI	92%	82%	69%	79%	94%
INDIGO	96%	69%	68%	N/A	100%

**BMW MODEL**

BMW Model is the Method of Forecasting Based on the Best Moderate and Worst inferences. It gives the Maximum Deviations on both the sides of a company. Here the BMW model is used for forecasting the share price of various companies. It is done finding the CAGR of EPS of the company. Then Maximum, Average and Minimum PE of the company and then multiplied to find Best, Moderate and Worst share price predictions respectively.

*TABLE V CAGR OF EPS AND BMW OF PE*

COMPANY	EPS CAGR	EPS at 2020	Best PE	Moderate PE	Worst PE
ASIAN	0.12	28.20	67.15	44.16	22.99
BERGER	0.12	6.77	86.91	34.84	9.50
AKZO	0.02	5.21	476.02	253.48	125.94
SHALIMAR	-0.01	-3.52	81.16	-7.86	-125.62
KANSAI	0.08	9.67	62.57	32.71	11.94
INDIGO	0.05	10.05	N/A		

**INTERPRETATION**

The above table gives the EPS CAGR of six companies and predicting the possible growth of the EPS for the upcoming years based on the Best, Moderate and Worst PE.

*TABLE VI PROJECTED SHARE PRICE*

PROJECTED SHARE PRICE					
COMPANY	YEAR	EPS	BEST	MODERATE	WORST
ASIAN	2021	31.69	2127.82	1399.38	728.58
	2022	35.61	2390.89	1572.38	818.66
	2023	40.01	2686.48	1766.78	919.87
	2024	44.96	3018.62	1985.21	1033.59
	2025	50.51	3391.82	2230.65	1161.38
BERGER	2021	7.59	659.64	264.42	72.12
	2022	8.51	739.20	296.30	80.82
	2023	9.53	828.35	332.04	90.56
	2024	10.68	928.25	372.08	101.49
	2025	11.97	1040.20	416.96	113.72
AKZO NOBEL	2021	5.30	2524.29	1344.18	667.87
	2022	5.40	2571.19	1369.15	680.27
	2023	5.50	2618.96	1394.59	692.91
	2024	5.60	2667.62	1420.50	705.79
	2025	5.71	2717.18	1446.89	718.90
KANSAI NEROLAC	2021	10.45	653.89	341.89	124.81
	2022	11.30	706.85	369.58	134.91
	2023	12.21	764.09	399.51	145.84
	2024	13.20	825.97	431.86	157.65
	2025	14.27	892.86	466.84	170.42
SHALIMAR	2021	NEGATIVE 10 YEAR CAGR			
	2022				
	2023				
	2024				
	2025				
INDIGO	2021	LISTED IN THE YEAR 2021 ONLY			
	2022				
	2023				
	2024				
	2025				

**INTERPRETATION**

The above table gives the Projected Share prices of paint industries in Best, Moderate and Worst conditions for upcoming Five years. This is based on the 10 year CAGR of EPS growth which shows that company share price will be high in those period than the found values based on recent trends and recent growth . Young generation minds are likely to show interest in investing in Stock Market And also recent Government Initiatives of developing the Nation will show a greater increase in Share price of these Paint Industries.

**RANKING**

*TABLE VII RANKING OF RATIOS*

RANKING OF RATIOS FOR COMPANIES						
COMPANY	ASIAN PAINTS	BERGER PAINTS	AKZO NOBEL	SHALIMAR PAINTS	KANSAI NEROLAC	INDIGO PAINTS
EPS(Rs)	1	4	5	6	3	2
ROE	1	2	4	6	5	3
ROCE	1	3	4	6	5	2
PE	3	2	1	6	4	5
PEG	4	3	1	5	2	6
DEBT EQUITY RATIO	2	3	4	5	1	6
CURRENT RATIO	2	4	3	6	1	5
INVENTORY TURNOVER	3	5	2	6	4	1
NET SALES(Cr)	1	2	4	6	3	5
YOY	3	4	6	2	5	1
EARNING BEFORE TAX(Cr)	1	2	4	6	3	5
YOY	3	2	4	6	5	1
ENTERPRISE VALUE(cr)	1	3	2	5	4	6
EV/EBITDA	3	4	5	6	2	1
BOOK VALUE PER SHARE	1	4	5	6	2	3
DIVIDEND PAYOUT RATIO	1	2	3	5	4	5
INTEREST COVERAGE	3	5	2	6	4	1
SGR	4	2	5	6	3	1
IGR	3	4	5	6	2	1
ROA	1	2	5	6	4	3
P/B RATIO	3	2	1	5	4	6
1YR CAGR	3	1	2	6	5	4
3YR	2	1	3	6	5	4
5yr	2	1	4	6	3	5
10 yr	2	1	4	5	3	6
RETENTION RATIO	1	2	3	5	4	5
AVERAGE	2.12	2.69	3.50	5.58	3.46	3.58

**INTERPRETATION**

The above table shows the Rank of the Findings and it gives a clear indication that Asian paints and Berger paints are having strong Fundamentals and are good for investing.

**V. SUMMARY OF FINDINGS**

- From the analysis, it has been found that Paint Industries has a huge scope of Market capitalization in India and across the Globe.
- Rural areas are yet to be covered by Paint industries which is 70 % in India.
- Therefore, there is a sure Growth opportunity for the Indian paint industry. Governments initiatives for the development also improve the growth of paint industries.
- From the BMW model we could establish the Possible growth conditions of these paint industries.
- Power of compounding will give an additional profit for the investors with the help of CAGR.

- Asian Paints new initiatives with the help of their R & D will make them a Number one among Asian Industries.
- Berger paints start of new plant by the year 2023 will increase their production and sales and expansion in various countries and within rural areas will give a growth in share price.
- Indigo which is recently listed in NSE for the start of a new plant in Pudukottai Tamil Nadu will make them increase their sales in those areas and also their new advertisements in recent will make them increase their Profit.
- Shalimar paints which is more than 100 years old is in the stages of decline which has negative growth for the past few years which shows they need to improve their strategies.
- Nerolac which is a foreign based company which need to target their Decorative segment for a good improvement.
- Akzo Nobel which is popularly known as Dulux paints has a good CAGR in sales and share price.
- Therefore, there is a sure Growth opportunity for the Indian paint industry.

#### VI. SUGGESTIONS AND RECOMMENDATION

- Asian Paints, Berger Paints and Indigo Paints has a huge scope of Investing.
- Asian paints need to Target its Industrial segment and maintain its state in Decorative segment as it is the leader of decorative segment.
- Shalimar paints shows a negative growth which requires good strategies to overcome this stage.
- Akzo Nobel requires concentration of developing in the Indian rural areas.
- Kansai can improve its sales by targeting improvement methods in its Decorative segment, since it is a leader of Industrial Segment.
- Berger and Indigo has a Higher Probability of Growth than Asian paints.

#### VII. CONCLUSION

Paint is a essential material and it is required in all the Activities of the Country. The growth shall be dependent on a number of factors like disposable income in the hands of public, urbanization, economic development, crude oil price and recovery in the real estate. Overall the profitability position of all the select paint companies good and satisfactory for the study period except Shalimar which is in decline state. Since Paint can't be replaced by any other forms, Paint Industry is a definite Growth industry for investing.

Top Three Paint Companies that are Good for Investing based on Ranking analysis are

1. Asian Paints
2. Berger Paints
3. Kansai Nerolac

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