A Study on Financial Performance of Asian Paints with Reference to Coimbatore City

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Abstract- *To outset any business it is vital to own finance and success of the business entirely depends upon the right management and applications of finance. It is essential to uphold prevalence between two activities which might be finished with the assistance of calculating differing types of ratios like current ratios, quick ratios and debt coverage ratios etc. Every manufacturing sector requires competent use of inventory and tools to expand its products. This study explains that ratio analysis will help the management in estimate the long run performance of the corporate. The scope of inscribing this research paper is to spread the logical usage of ratio analysis for analysis the financial performance of Asian Paints ltd. so as to test the usefulness of operations and to resolve how well the manufacturing process goes to take place and use of ratio analysis to measure its business transactions.*

I. INTRODUCTION

Asian Paints Limited is an Indian multinational paint company established in 1942 headquartered in Mumbai, Maharashtra. The company has been the market leader in paints since 1967. Today, it's double the dimensions of the other paint company in India. Asian Paints manufactures a large range of paints for decorative and industrial use. Asian Paints is India's leading paint company with a gaggle turnover of Rs 193.50 billion. The group has an enviable reputation within the corporate world for professionalism, agency growth, and building shareholder equity. Asian Paints operates in 15 countries and has 26 paint manufacturing facilities within the world servicing consumers in over 60 countries. Besides Asian Paints, the group operates round the world through its subsidiaries Asian Paints Berger, Apco Coatings, SCIB Paints, Taubmans, Causeway Paints and Kadisco Asian Paints. Asian Paints manufactures wide selection of paints for Decorative and Industrial use. In Decorative paints, Asian Paints is present altogether the four segments v.i.z Interior Wall Finishes, Exterior Wall Finishes, Enamels and Wood Finishes. It also offers Water proofing, wall coverings and adhesives in its product portfolio. Asian Paints also operates through 'PPG Asian Paints Private Ltd' (50:50 JV between Asian Paints and PPG Inc, USA, one in every of the most important automotive coatings manufacturer within the world) to service the increasing requirements of the Indian automotive coatings market. The second 50:50 JV with PPG named 'Asian Paints PPG Private Ltd' services the protective, industrial powder, industrial containers and lightweight industrial coatings markets in India. The corporate was started in a very garage in Gaiwadi, Girgaon, and Mumbai by four friends Champaklal Choksey, Chimanlal Choksi, Suryakant Dani and Arvind Vakil. all of them belong to Jain families, and founded the corporate in February 1942. During war II and also the Quit India Movement of 1942, a brief ban on paint imports left only foreign companies and Shalimar Paints within the market. Asian Paints took up the market and reported an annual turnover of ₹23 crore in 1952 but with only 2% PBT margin. By 1967, it became the leading paints manufacturer within the country.
The four families together held the bulk shares of the corporate. But disputes started over the world rights in 1990s when the corporate expanded beyond India. The disputes resulted in Choksey selling their 13.7% shares and exiting in 1997. Champaklal died in July 1997 and his son Atul took over. After failed collaboration talks with the British company Imperial Chemical Industries, Choksey's shares were mutually bought by the remaining three families and investment firm of India. As of 2008, the Choksi, Dani and Vakil families hold a share of 47.81%.

STATEMENT OF PROBLEM

The study is done to investigate the financial performance of Asian Paints Limited and its capital utilization. This helps to grasp their strength and weaknesses. The Financial statements like record and profit and loss account helps within the same.

II. OBJECTIVES

- To study the financial performance and operating performance through ratios
- To analyze the Cost Composition through the Common Size Statements

- To find out Trend analysis of key financial numbers

III. SCOPE OF THE STUDY

- This study provides information about the cash position company is holding and how much debt the company has in relation to equity.
- This helps in understanding the financial strengths and weaknesses and creditworthiness of the company.
- The study also helps in assessing the operational efficiency and managerial effectiveness of the company.

NEED FOR THE STUDY

- To understand the concept of financial statement analysis.
- To calculate the liquidity ratio, profitability ratio and turnover ratio of the organization.
- To study and provide solution for the management improvement.

LIMITATION OF THE STUDY

- The data available in the company's website may not be fully reliable.
- Errors in the financial statements will be reflected in the study.
- Data of only the past 5 years is taken for the study.

IV. REVIEW OF LITERATURE

Sudarsana Reddy (2003), studied the Financial Performance of Paper industry in AP. The main objectives set for the study are to evaluate financing methods and practices to analyze the investment pattern and utilization of fixed assets, to ascertain the working capital condition, to review the profitability performance and to suggest measures to improve the profitability. The data collected have been examined through ratios, trend, common size, comparative financial statement analysis and statistical tests have been applied in appropriate context. The main findings of the study are that A.P paper industry needs the introduction of additional funds along with restructuring of finances and modernization of technology for better operating performance.

Gopinathan (2009) has discussed that the financial ratio analysis can opt better investment alternatives for shareholders as the ratio analysis quota different aspects of the performance and determine basics of a company or an organization.

Dangwal and Kapoor (2010) undertook the study on financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability indices.

They found that out of 19 banks, four banks had excellent performance, five banks had good performance and six banks had poor performance. Thus the performance nationalized banks differ widely.

Ravichandran M. and Subramanian M Venkita (2015), the main idea believed in this study is to assess viability, stability and profitability of Force Motors Ltd. Operating position of the company can be measured by using various financial tools such as profitability ratio, solvency ratio, comparative statement and graph etc. This study finds their company has got enough funds to meet its debts and liability. Company can further improve financial performance by reducing the administrator, selling is operating expense.

M.Ravichandran and Subramanium (2016) have explained that the primary concept behind this analysis is to quota operating position of the company by applying different financial instruments such as profitability ratio, solvency ratio and graphs etc.

V. RESEARCH METHODOLOGY

In this analysis an attempt is made to assess and study the financial performance of Asian Paints ltd. The analysis is predicated on the secondary data which is gathered from the annual reports of the company, journals, documents and other online published database.

VI. DATA COLLECTION

SECONDARY DATA

The data has been collected from the Annual Report & Balance Sheet and Statement of Profit & Loss account of ASIAN PAINTS.

PERIOD OF STUDY

The study has been undergone for the period of three months.

ECONOMIC ANALYSIS

India faced one of the challenging years in Financial Year 21 mainly due to the covid pandemic. However, the economy started to recover due to several measures taken by the government.

Especially the informal players as Micro, Small and Medium-sized Enterprises (MSMEs) have taken a disproportionately large hit in many industries.

Inflation has picked up over the year which despite the pandemic, primarily led by food inflation and there is increase in fuel taxes.

On the exchange rate front, in the beginning of the financial year post the initial bout of depreciation in the Indian currency, that has been relatively well supported on account of robust portfolio inflows in the economy as well as a better current account position.

The companies that offer paints and coatings are witnessing increased sales volumes.

INDUSTRY ANALYSIS

The paints industry in India has been struggling with inflationary pressures on raw materials for the past few months.

The crude prices and titanium dioxide rises which constitute 20% of raw material cost, this had their biggest toll on the margins of the paint companies in the last four decades.

The Indian paint industry grew at a CAGR of 11 percent over FY11-FY19. Decorative paints, which, is the largest segment within the paints industry constitutes about 74 percent of total paint sales. Decorative paints segment is immune to the industrial slowdown to a large extent which has helped the paint sector grow at a robust rate.

The proposed expansion will increase the installed capacity of paint from 130,000 KL to 250,000 KL and resins and emulsions from 32,000 MT to 85,000 MT.

The expansion will be carried out on the existing land owned by the company and will be completed in the next two to three years.

The Indian paint market is expected to grow with over 75000 crores in terms of value for period of FY 2017-18 to FY 2022-23, on account of change in lifestyle, urbanization, and increase level of education, high margin on paint.

TOOLS FOR ANALYSIS

The financial and statistical tool is used in the study on ratio analysis due to the time. The ratios are profitability, activity, liquidity and solvency ratio.

VII. ANALYSIS AND INTERPRETATION

LIQUIDITIY RATIO

CURRENT RATIO

It measures the ability of a business to meet its short- term obligations of a company

Current Ratio = Current Assets / Current Liabilities

Particulars	Total current assets	Total current liabilities	Current ratio
2016-17	6,965.68	3,884.87	1.79
2017-18	6,914.08	4,451.07	1.55
2018-19	7,626.95	5,180.10	1.47
2019-20	7,580.11	4,380.38	1.73
2020-21	12,026.60	5,925.86	2.02

Interpretation

Current ratio has been fairly stable over the past few years but increased rapidly in the FY 2020-21

QUICK RATIO

It measures the ability of a business to pay its short- term liabilities by having assets that are readily convertible into cash.

Quick Ratio = Liquid Assets / Current Liabilities

Particulars	Liquid assets	Total current liabilities	Quick ratio
2016-17	4,338.74	3,884.87	1.12
2017-18	4,255.77	4,451.07	0.95
2018-19	4,476.79	5,180.10	0.86
2019-20	4,190.30	4,380.38	0.96
2020-21	8,228	5,925.86	1.39

Interpretation

Quick ratio has been fairly stable over the past few years but increased rapidly in the FY 2020-21

SOLVENCY RATIOS

DEBT EQUITY RATIO

Debt equity = total debt / shareholder’s fund

Particulars	Shareholder's fund	Total debt	Debt to equity
2016-17	7,979.34	4,425.85	0.55
2017-18	8,737.88	5,025.60	0.57
2018-19	9,831.80	6,417.04	0.65
2019-20	10,533.6	5,604.28	0.53
2020-21	13,229.15	7,126.19	0.54

Interpretation

Debt equity ratio has been fairly stable over the past few years.

PROFITABILITY RATIO

GROSS PROFIT MARGIN

Formula for calculating gross profit margin
(Gross profit/Revenue) x 100

Particulars	Revenue	Gross profit	Gross profit margin %
2016-17	17,626.93	10,068.31	57.12%
2017-18	17,160.96	8,922.49	51.99%
2018-19	19,513.90	9,419.87	48.27%
2019-20	20,566.30	10,486.52	50.99%
2020-21	22,044.44	11,532.84	52.32%

Interpretation

Gross profit margin of the Asian paints has been increasing over the past few years.

EBIT MARGIN

Formula for calculating EBIT margin
(EBIT/Revenue) x 100

Particulars	Revenue	EBIT	EBIT MARGIN %
2016-17	17,626.93	3,331.66	18.90%
2017-18	17,160.96	3,540.42	20.63%
2018-19	19,513.90	4,038.71	20.69%
2019-20	20,566.30	4,511.87	21.94%
2020-21	22,044.44	5,187.25	23.53%

Interpretation

EBIT margin has increased in the past few years.

NET INCOME MARGIN

Formula for calculating net profit margin
(Net profit/Revenue) x 100

Particulars	Revenue	Net income	Net income margin
2016-17	17,626.93	1,939.43	11.00%
2017-18	17,160.96	2,038.93	11.88%
2018-19	19,513.90	2,155.92	11.05%
2019-20	20,566.30	2,705.17	13.15%
2020-21	22,044.44	3,139.29	14.24%

Interpretation

Net income margin is growing constantly due to effective cost optimization and increase in revenue.

VIII. FINDINGS

- **Current ratio** has been fairly stable over the past few years but increased rapidly in the FY 2020-21
- The quick ratio of the company is fluctuating during the years. It reaches
  the ideal ratio only in the financial year 2020-21.

This indicates that the short term solvency of the company is back in control.

- A lower debt to equity ratio value is considered favorable because it indicates a lower risk. The company has been achieving the ideal ratio during these years. The debt equity ratio is around 0.5 in all these years, this shows that the company has half the liabilities than it has equity. The company is maintaining low debt contact in their capital structure
- The gross profit ratio of the company is more than ideal ratio. This shows that the company has sufficient gross profit enough to cover all operating expenses.
- The EBIT ratio of the company has attained the ideal ratio in financial years 2016-2021. The ratio is fluctuating year by year. This shows that the profits of the company are fluctuating.
- **Net income margin** is growing stable due to effective cost optimization. Net income margin as increased in last two financial years. This shows the growth of the company

IX. SUGGESTIONS

- The shareholder's fund has to be raised more, so as to bring the debt equity ratio to the standard level.
- Company should try to use working capital effectively for generating sales and increasing turnover ratios.
- The debt makes an impact on the profitability of the organization. The company should enlarge its capital base by adopting long term sources of finance.
- The company is stable during these years, so it can raise fund and implement new strategies to improve the growth of the organization.

X. CONCLUSION

The financial performance of Asian Paints Limited is done by ratio analysis. Ratio analysis is done by selected ratios based on financial statements of the company. On the study of financial performance of Asian Paints Limited reveals that the company has effectively and efficiently utilized fund. The company growth is reflected from the ratio analysis. This shows that the company is financially stronger. So, the company can generate greater profit by making even more strategies.

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