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A study on Financial Analysis of Asian Paints Limited

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ABSTRACT

The current research study aims to measure the financial performance and financial position of chemical industry in India. It plays an important role in the development of a business in future, growth in sales in the next year as well as improvement in the profitability over a long period. For this purpose, Asian Paints Limited, one of the largest companies in chemical sector in India is selected for the financial analysis over a period of five years from the year 2017-18 to 2021-22. During this period, liquidity position of a company is measured. Moreover, financial performance and financial position of a company have been also evaluated for the same period.

Keywords: Financial position, financial performance, liquidity position, efficiency etc.

INTRODUCTION

There are so many sectors in India and each sector has its own importance and contribution in the manufacturing industry. In Indian manufacturing industry, various sectors are available such as automobile, pharmaceutical, cement, steel, chemical, food and beverages, defense, IT etc. Out of these, chemical sector is selected for the research purpose in the present study. As chemical industries are the key factors to translate the raw materials into preferred products that we use in our routine life, this has transported an incredible change in the way the things work. It is extremely important for us to recognize the importance of the chemical industry which has handled all our aspect of life like agriculture, environment, food, hygiene and transportation etc. It has also considerably used in re-cycling industries to control the usage of virgin products. Re-cycling helps a lot in utilizing the waste materials, and gives one more life-cycle for the products. Therefore, chemical sector is selected for the research purpose. In the study financial analysis is made for Asian Paints Limited for the period of five years from 2017-18 to 2021-22. To analyze the financial data of the company, ratio analysis technique is used to measure the financial position and financial performance of the company. To evaluate liquidity position of a company, current ratio and quick ratio are to be used for the last five years. To measure the solvency position, debt-equity ratio and interest coverage ratio are to be calculated. Further, to measure the profitability of the company, some profitability ratios like gross profit ratio, net profit ratio and return on equity are to be calculated. Apart from it, to know the efficiency of the business, activity ratios like stock turnover ratio, assets turnover ratio are to be calculated for the same period.

Objectives of the Study:

- To evaluate the financial data of Asian Paints Limited, one of the largest companies of chemical sector in India.
- To analyze the financial position of Asian Paints Limited over a period.
- To measure the financial performance of Asian Paints Limited in chemical sector of India.
- To measure the efficiency of Asian Paints Limited from the different activity ratios for the last five years.
- To measure the liquidity position of Asian Paints Limited in chemical sector of India.

LITERATURE REVIEW

Ranjit Kumar Paswan (2013) The main objective of the study is to know the liquidity and financial performance of selected FMCG companies in India. ITC, Emmi, Dabur, and Colgate have been able to repay their debt during the study period. The result of Emami and Dabur shows a high Debt Equity ratio, which indicates that there is more investment of loan than equity. Debtors Turnover Ratio of Nestle and Colgate show the efficiency of debt management. But the DTR of the rest of the companies is unsatisfactory. All the companies under study except Emami and Dabur show more use of the proprietary fund in acquiring total assets. The debt to Total Assets ratio of Emami and Dabur shows that more assets of the company are financed through debt.

Sahu (2002) found that liquidity plays a significant role in the successful functioning of a firm. Illiquidity threatens the very survival of the firm and leads to business failure. On the contrary, a very high degree of liquidity hampers profitability. He observed that most of the paper-producing companies in India have been caught in a vicious downward cycle and facing a threat to their viability.

Kalsie and Arora (2015) The study found that the current ratio, inventory turnover ratio, and EPS significantly impact the stock prices.

However, relatively less influence of receivable turnover ratio on stock prices was unearthed interestingly, a negative relationship was found between current ratio and stock prices whereas Inventory Turnover Ratio, and EPS supported a positive association with the stock prices.

Srikanth (2014) conducted a study using the cash flow statement of Madhucon
Sugars and Power private limited for 3 years. It was stated that during the study period company did not maintain cash balance and the overall performance in terms of profitability, liquidity declined due to the deterioration in the operating activities of the company. Apart from that, it has also been observed that fixed assets have been financed by long-term financial sources.

Krishnaveni, M. & Vidya, R. (2015) find that Indian automobile industry is a highflying sector these days and emerging as an export hub in wake of liberalization and globalization. This paper revises the category wise production, sales and exports of automobile industry in India. Industry growth can be viewed in term of pre and post liberalization. As government allows 100 percent FDI, increase 15% in customs duty on cars and MUVs to encourage local manufacturer and concessional import duty on specified parts of hybrid vehicles.

Sarwade Walmik Kachru (2015) analyzed the effects of liberalization, government delicensing and liberal trade policies on the growth of Indian auto mobile industry. The study recommends that investing four- wheeler is going to be smart potion not only in India but all around the world.

Becker Dieter (2015) the report shows about the current state and future prospects of the worldwide automobile industry. This survey-report the manufacturer, executive and consumer views about four aspects, mobility culture, technological fit, business model readiness and market share.

Surekha B. & Krishnalah K. Rama (2015) this study reveals the prosperity of Tata Motors Company. It can be concluded that inner strength of company is remarkable. Company can further improve its profitability by optimum capital gearing, reduction in administration and financial expenses for the growth of company.

Importance of Financial Statements:
Importance of Financial Statements to Management: Management needs the financial statements for proper execution of managerial functions. If there is correct and reliable information, the management can plan properly and perform the functions of operation and control very easily. The Financial Statements guide the management for effective use of capital employed and determine the level of credit obtained from the banks and financial-institutions. The well-drawn and properly constructed financial statements help for effective policy formulation. Moreover, the management may examine and analyze the net results of different activities and the efficiency of employees concerned with those activities. The expansion activities of the business concern are determined on the basis of financial position and strength of the company.Importance of Financial Statements to Government: The financial statements are highly useful to assess the tax liability of the business concern. The economic condition of a nation is identified by collecting such financial statements from various industrial sectors. Both state and central government can find out whether the business concern is following rules and regulations or not. These statements provide a basis for framing new laws and amending the existing laws for regulating the business. Importance of Financial Statements to Banker: The bankers can find out the ability of the business to meet its obligations, short term and long-term solvency, credit worthiness and earning capacity. Besides, the bankers make comprehensive analysis of customers' policies and plans. The extent of loan can be easily fixed by the banker on analyzing the financial statements.

Financial Analysis of Asian Paints Limited:

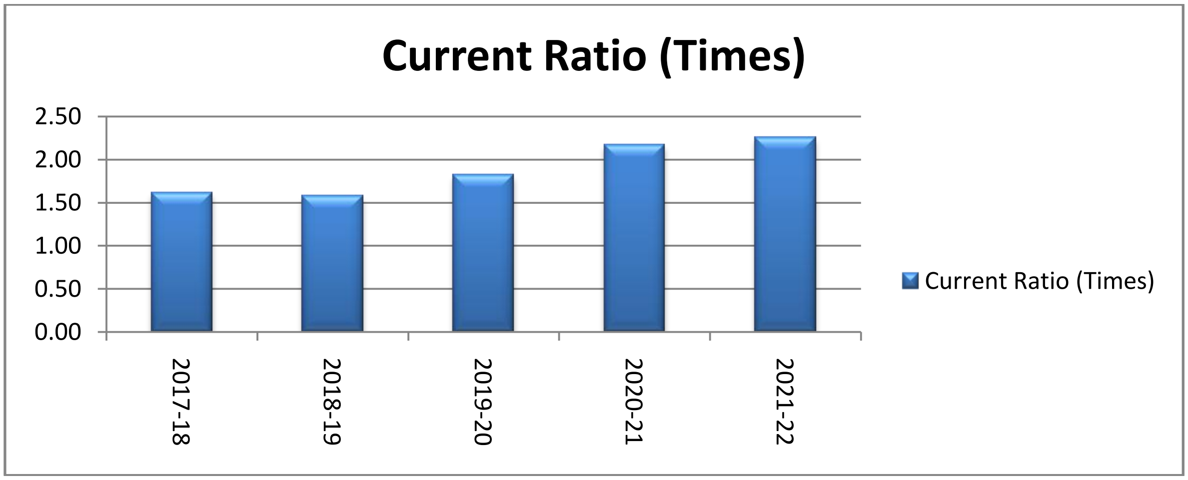
The financial data of Asian Paints Limited are analyzed by using financial statements analysis technique like ratio analysis for the last five years from the year 2017-18 to 2021-22 as follow:

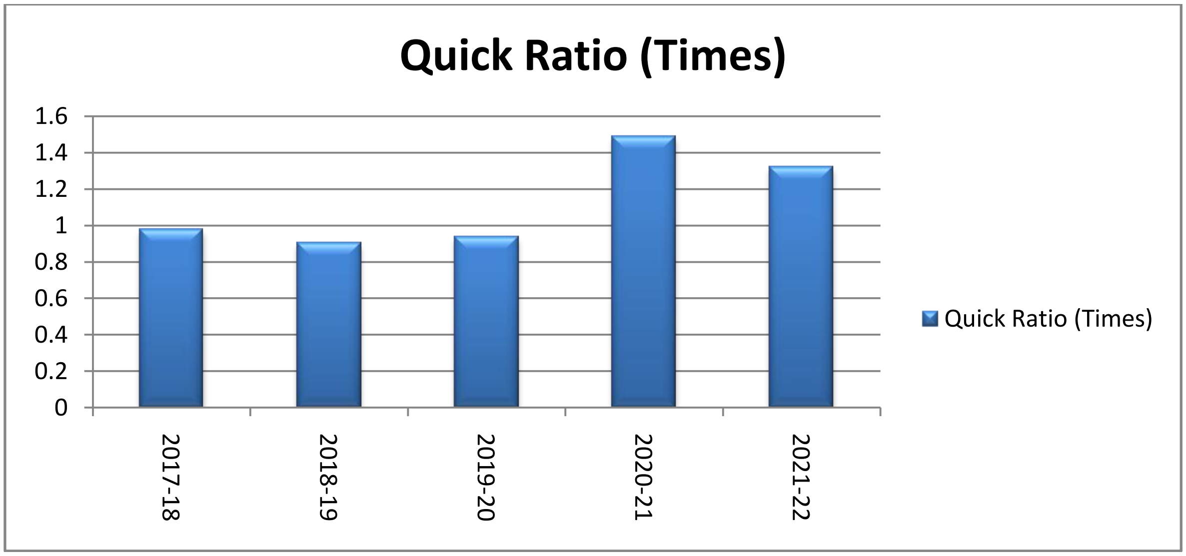
Asian Paints Limited:

Liquidity Ratios:

Liquidity means the ability of a firm to pay its short term debt as and when they become due. Current Liabilities are met out of realization of Current Assets. Therefore, the Current Assets should be liquid enough to pay the Current Liabilities of a firm. Current Assets should be easily convertible into cash. Liquidity is the pre-requisite for the survival of a firm. A firm having no liquidity may soon meet with its downfall and ultimately die. The short term creditors and bankers are interested in liquidity position of the firm. The liquidity ratios like current ratio and quick ratio are as follow.

Year	Current Ratio	Quick Ratio
2017-18	1.61	0.97
2018-19	1.57	0.90
2019-20	1.82	0.93
2020-21	2.17	1.49
2021-22	2.25	1.32

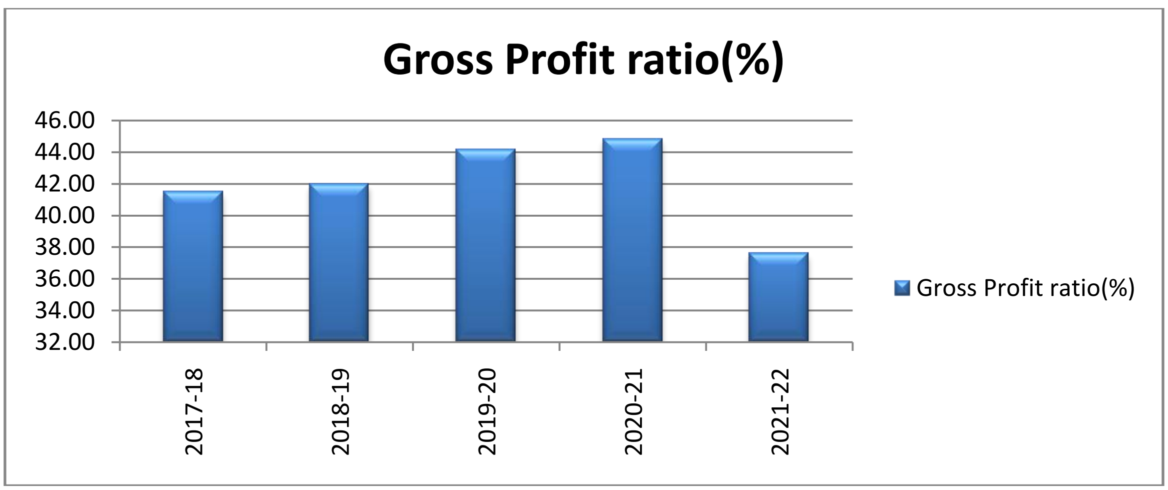


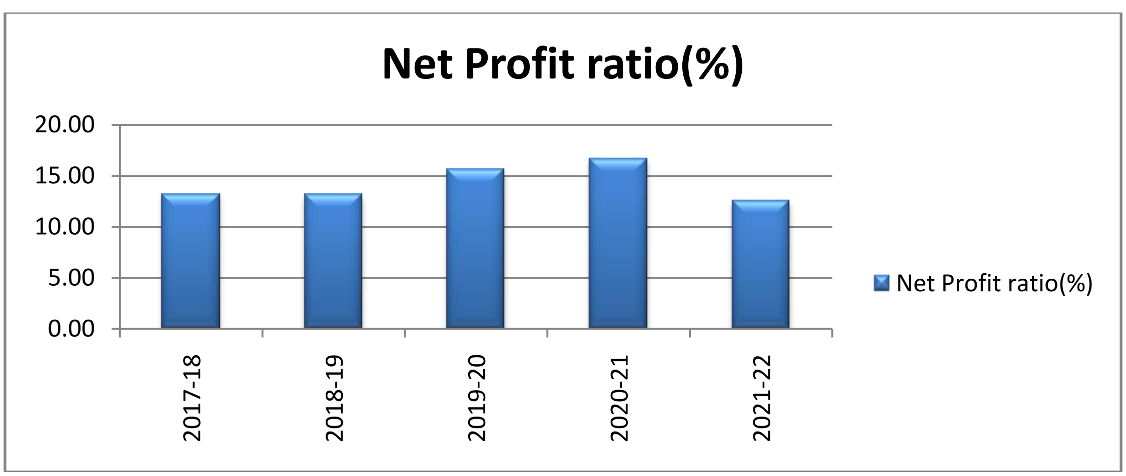


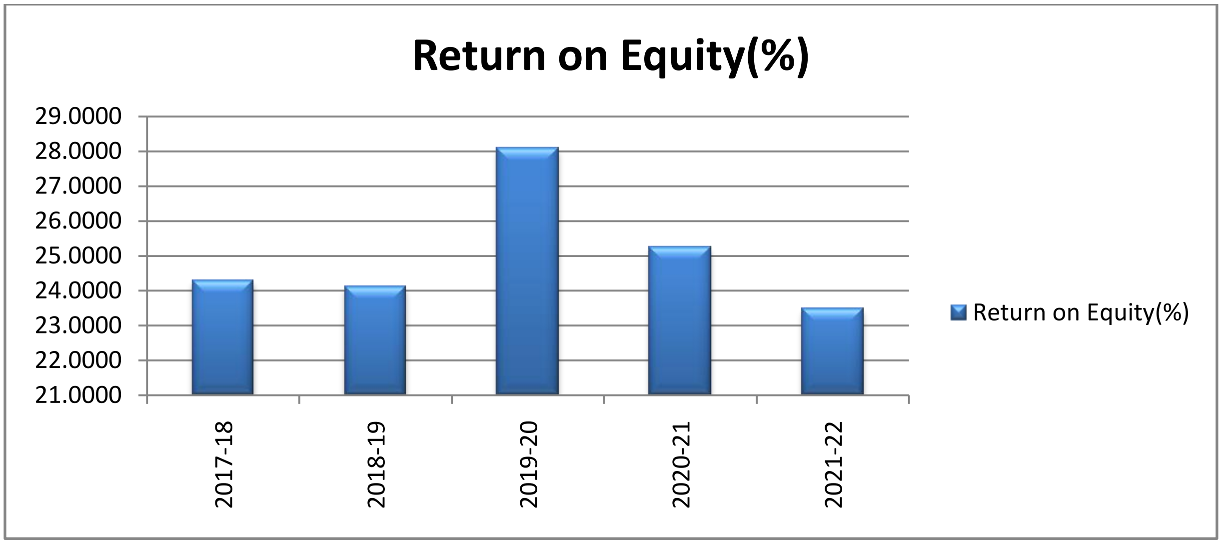
From the above current ratio and quick ratio, it had been observed that current ratio of the company is healthy as it increases from year to year on an average from 1.61 to 2.25 over a period of 5 years. It shows that there is sound liquidity position of the company. On the other hand, quick ratio of the company is not satisfactory as it is less than 1 from the year 2017-18 to 2019-20. This is due to excess investment in inventories in the company. Thus, a company needs to improve its liquidity position by improving its quick ratio by reducing the investment in inventories.

Profitability Ratios:
Profitability reflects the final result of the business operations. These ratios are calculated to measure the operating efficiency of the company. There are two types of profitability ratios: Profit margin ratios and Rate of return ratios. These ratios are calculated to know the profitability position on the basis of Sales and Investment of funds. Profit margin ratios show the relationship between Profit and Sales and the Rate of Return ratios reflect the relationship between Profit and Investment. The profitability ratios like gross profit ratio, net profit ratio and return on equity are as follow.

Year	Gross Profit ratio (%)	Net Profit ratio(%)	Return on Equity(%)
2017-18	41.46	13.22	24.29
2018-19	41.94	13.15	24.11
2019-20	44.17	15.59	28.07
2020-21	44.84	16.69	25.24
2021-22	37.57	12.54	23.48







From the above ratios, it had been studied that gross profit ratio of the company is on an average 41% for the last 5 years. It needs to increase this ratio so that production efficiency can be improved.

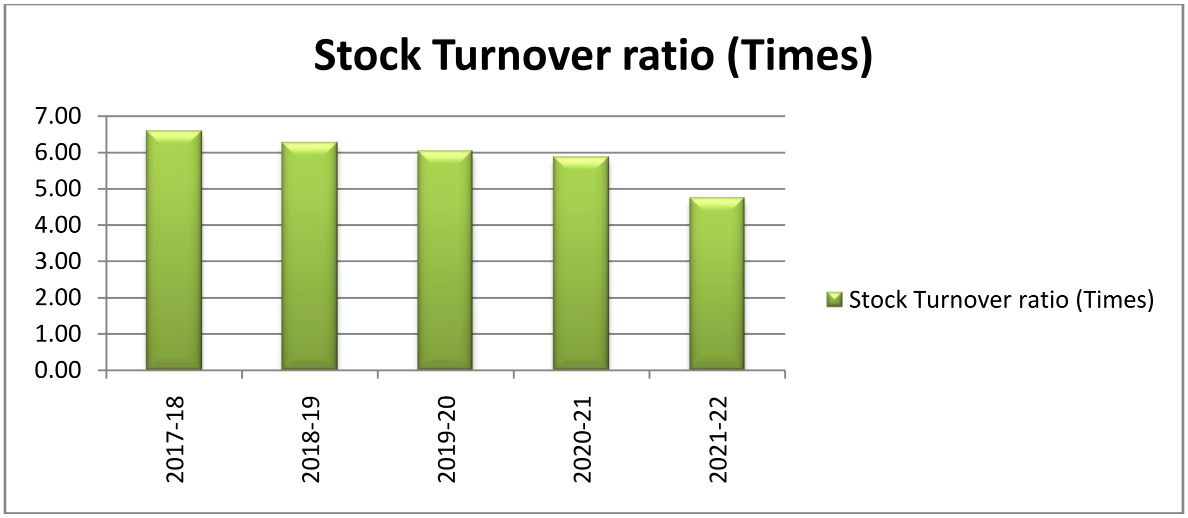
Net profit ratio of the company is on an average 13% for the last 5 years. It is also not so healthy ratio. A company needs to increase this ratio by increasing sales or by reducing expenses. A company also needs to improve efficiency of production, administration and tax management.

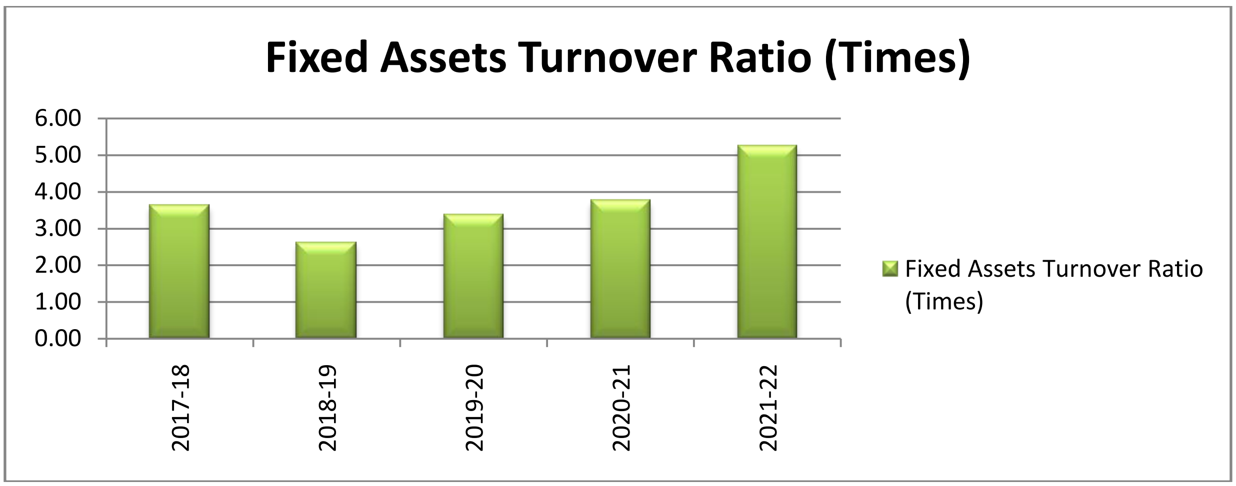
Return on equity of a company is quite satisfactory ratio as it increases year by year generally. It shows that there is efficiency of finance manager to use the owners' resources in the business.

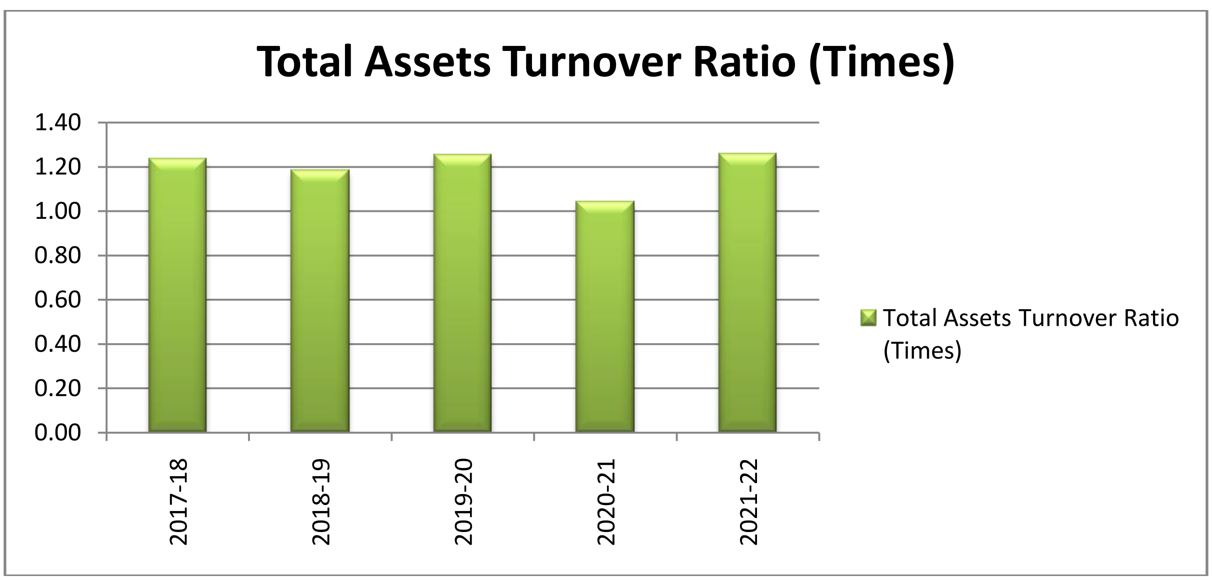
Thus, on an overall a company needs to improve its profitability position for the growth in the future.

Turnover Ratios:
This ratio is also called efficiency ratios or activity ratios or current assets movement ratios or velocity ratios. These ratios show the efficiency with which the capital invested in the assets is rotated in the business. The efficiency with which assets are managed, directly affect the volume of sales. Better the management of assets, higher the volume of sales and profit. These ratios are also called TR because they show the speed with which assets are turned or converted into sales. The overall profitability of the firm depends on the speed with which capital employed in assets rotates in the business. Higher the turnover higher the profit and lower the turnover lower the profit. The turnover ratios like stock turnover ratio, fixed assets turnover ratio and total assets turnover ratio are as follow.

Year	Stock Turnover ratio (Times)	Fixed Assets Turnover Ratio (Times)	Total Assets Turnover Ratio (Times)
2017-18	6.58	3.62	1.24
2018-19	6.27	2.60	1.18
2019-20	6.02	3.36	1.25
2020-21	5.85	3.74	1.04
2021-22	4.74	5.23	1.26







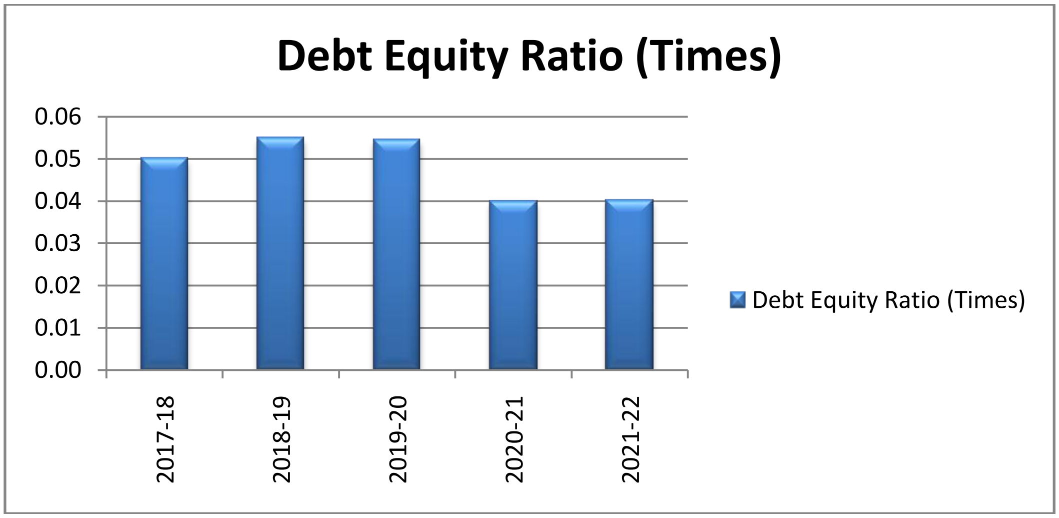
From the above ratios, it had been evaluated that stock turnover ratio of the company is not healthy as it decreases from the year 2017-18 to 2021-22. This shows that there is inefficiency of inventory management. A company needs to improve this ratio by converting slow moving stock into fast moving stock.

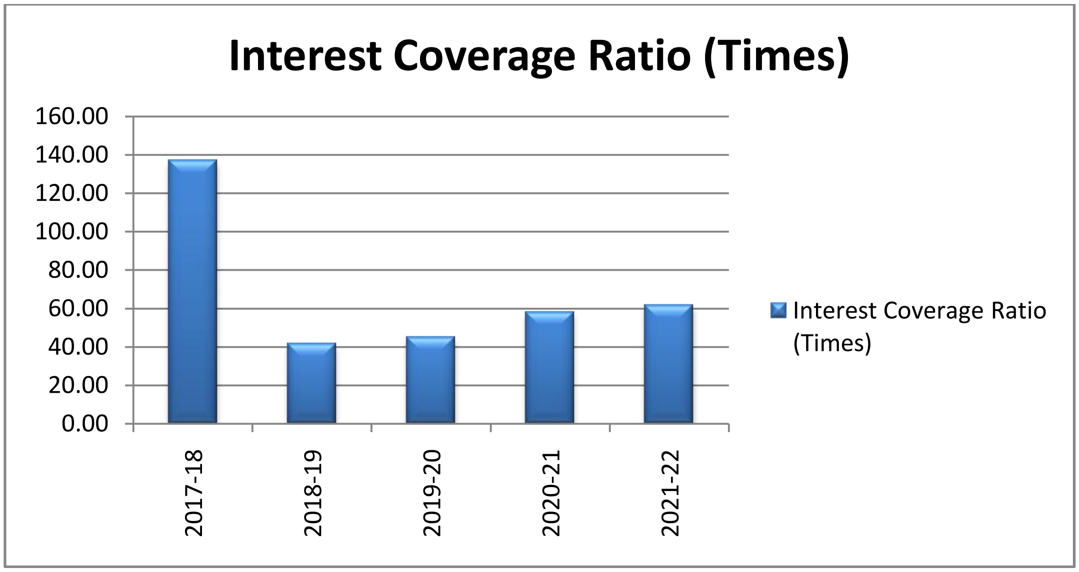
On the other hand, fixed assets turnover ratio and total assets turnover ratio are quite satisfactory. It measures efficiency of asset management. Still, on an average a company needs to improve its efficiency of inventory and asset management.

Leverage Ratios:

Leverage refers to the use of debt fund. Debt fund is a cheaper source of finance than equity fund. Therefore, debt funds are used by the firm to increase the Return on Investment (ROI). Even though debt funds are cheaper than equity, it is a riskier source of finance. Leverage ratio helps in assessing the risk arising from the use of debt fund. The leverage ratios like debt-equity ratio and interest coverage ratio are as follow.

Year	Debt Equity Ratio (Times)	Interest Coverage Ratio (Times)
2017-18	0.05	137.08
2018-19	0.05	41.33
2019-20	0.05	44.97
2020-21	0.04	58.07
2021-22	0.04	61.47





From the above ratios, it had been measured that debt equity ratio of the company is very low. It indicates that a company is using very less borrowed fund and more equity fund in its capital structure. This reduces financial risk in the business. Moreover, interest coverage ratio of the company increases from the year 2018-19 to 2021-22. It shows that a company is able to pay interest out of the available profit.

CONCLUSION

From the use of technique of ratio analysis for the analysis of financial statements of Asian Paints Limited, it had been concluded that the liquidity position of the company is not sound during the period of five years. Therefore, a company needs to improve its short term solvency position by reducing investment in inventories. Furthermore, it studied that the company also needs to improve its profitability for the growth in the business in future. In addition, a company needs to improve the efficiency of inventory management by converting slow moving items into fast moving items in the business. On the other hand, it shows the efficiency of asset management during the period of five years. As far as long term solvency position of the company is concerned, it is sound financial position as it used less borrowed fund in the capital structure and it reduces financial risk as well as its capacity to cover interest on borrowed fund from the profit is higher.

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