

A Study of Financial Statement Analysis of Asian Paints Pvt. Ltd

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Abstract: Since many years ago, managers, planners, economists, and academic staff have all had opinions on how well a company is measuring its performance. It is the process of evaluating a company's operations and policies in terms of their financial impact. This phrase is also used to compare similar businesses within the same companies or to compare businesses or industries in aggregate. It can be used as a general indicator of a firm's overall financial health over a specific time period. Financial experts frequently evaluate the company's output and productivity levels as well as its profitability, liquidity, leverage, asset utilization, and growth levels. An effort has been made to analyze in this paper the position of five of India's top pharmaceutical companies in terms of profitability using multiple regression, analysis of variance, mean, standard deviation, and coefficient of variation. The findings are consistent with earlier research and accepted financial theory, which states that rising profitability will result in greater efficiency as well as better financial performance in the long run. The company's efficiency ratios, which include a relatively stable inventory turnover ratio and receivables turnover ratio, suggest that it has been effective in managing its resources.

Keywords: Efficiency, liquidity, and profitability ratios

INTRODUCTION

One of India's top producers of decorative and industrial paints is Asian Paints Pvt. Ltd. The business has been in business for more than 70 years and has made a name for itself as a global leader in the paint sector. Any company's performance may be assessed through financial statement analysis, and Asian Paints is no exception. In order to evaluate the financial performance, profitability, liquidity, and general financial health of the company for the last three years (2018–2020), this study will investigate Asian Paints Pvt. Ltd's financial statements. The income statement,

balance sheet, and cash flow statement of the business will be the main subjects of the analysis. The financial performance of the company is a key factor in its overall success. When evaluating the performance of previous management and prospects for the future, financial analysis, which includes financial ratio analysis and analysis of financial strengths and weaknesses, will be extremely helpful. If the information in a financial statement can be used to make predictions about what will happen in the future, it will be more useful for making decisions. It is possible to determine a company's strengths and weaknesses through this financial analysis. In order to achieve the objective of maximizing shareholder prosperity, the ratio can indicate whether the company has sufficient cash to meet its financial obligations, a reasonable amount of receivables, effective inventory management, sound investment spending planning, and a healthy capital structure. Financial statements also serve to provide financial information as one of the sources for strengthening decision-making, particularly from the company's financial system. This analysis can be carried out by determining whether a trend exists during a particular time period by comparing the performance of one period to that of the preceding period. Analyzing a company's financial condition can be done in a number of ways, but the most common method is to use ratios, which provide a relative measure of the company's operations. An analysis based on a company's financial statements is called a ratio 'analysis.

OBJECTIVES OF THE STUDY

- To calculate the company's profitability and spot trends in net profit margins.

- To evaluate the current ratio and quick ratio in order to determine the company's liquidity position.

STATEMENT OF THE PROBLEM

Leading Indian paint manufacturer Asian Paints Pvt. Ltd. Has experienced steady growth in recent years. To identify any potential risks and areas for improvement, it is crucial to assess the financial performance of the company in light of the rising competition and shifting market dynamics. The company's financial statement analysis can give important information about the company's profitability, liquidity, efficiency, and leverage. As a result, the goal of this study is to analyze Asian Paints Pvt. Ltd's financial performance using financial statement analysis in order to pinpoint any financial strengths or weaknesses of the business and, if necessary, offer suggestions for improvement.

SCOPE OF THE STUDY

- A financial ratio and technique-based analysis of Asian Paints Pvt. Ltd's financial performance over the past five years (2017–2021).
- Through financial statement analysis, the company's profitability, liquidity, efficiency, and leverage position are examined.
- Using secondary data sources to collect pertinent information for analysis, such as annual reports, financial statements, and trade publications.

RESEARCH METHODOLOGY

A research methodology is for solving a research problem in a systematic manner. It ensures specific techniques used in the research process to collect, assemble, and evaluate data. It describes the tools used to collect relevant information in a specific research study. Surveys, questionnaires, and interviews are research tools. It is the study of how scientific research is conducted. It is essentially the method by which researchers go about their work of describing, evaluating, and predicting phenomena.

SOURCE OF DATA

PRIMARY DATA

Data that is gathered especially for the purpose of the study is referred to as primary data. However, because the company's financial statements are available to the public and can be used as a source of secondary data for financial statement analysis, primary data may not be required.

SECONDARY DATA

The term "secondary data" refers to information that has been gathered and made public by someone else, such as in financial statements, annual reports, and trade publications. The company's financial statements, annual reports, and other financial publications pertinent to the paint manufacturing industry could all be considered secondary data sources for this study.

DATA COLLECTION

The source of data collected from secondary data for 5 years (2017-2021).

TOOLS USED FOR ANALYSIS

1. Cash flow analysis
2. Ratio analysis
 - Liquidity ratio
 - Leverage ratio
 - Profitability ratio
 - Turnover ratio

LIMITATIONS OF THE STUDY

- Financial statements, such as the balance sheet, income statement, and cash flow statement, only offer a limited amount of information about a company's operations. They don't offer details about the firm's market share, customer satisfaction, or other crucial elements that could affect its success.
- Financial statement manipulation allows businesses to give the public a more favorable impression of their financial standing. This can include sleight-of-hand accounting techniques, incorrect revenue recognition, and other criminal behavior.
- External factors, such as the state of the economy, the stability of the political system, and shifts in

market dynamics, can also limit the analysis of financial statements.

REVIEW OF LITERATURE

Srivastava (2018) has studied on “Role of Organizational management and managerial Effectiveness in promoting performance and production”. He identified some issues, such as a lack of proper management in variables, which results in chaos, waste of time, money, and effort. Although management is required in a variety of activities, it is especially important in business enterprises in both the public and private sectors. He proposed that the productive efficiency of a business firm is greatly influenced by the quality of management, and that the effectiveness of management is a major factor influencing the growth and prosperity of a business, on which the process of growth is based.

Toby (2019) conducted research on “Financial management trainer of the performance of Nigerian quoted small and medium-sized enterprises. He has concluded that the investment and financing decisions of Small and Medium-sized Enterprises are significantly related to their sustained growth, adequate liquidity, and required profitability. The empirical results revealed that there was no significant difference between the current ratio and the gross profit margin ratio, with the working capital gap remaining constant. He also noticed that the citation SMES current assets ratio, liquidity ratio, cash reserve requirement, and loan deposits ratio was highly perceptive to commercial banks.

Choudhary (2020) investigated the performance of common stocks in relation to alternative investment strategies by examining the relationship between investment performance of equity securities and alternative investment strategies based on market capitalization, P/E ratio, and earnings per share from January 2007 to December 2005. According to his findings, low market capitalization, P/E ratio, and earnings per share portfolios earned higher absolute rates of return than high market capitalization, P/V ratio, and earnings per share portfolios. He discovered that the low market capitalization investment strategy outperformed both the low P/E ratio and the low earnings per share investment strategies in terms of absolute and risk adjusted rate of return.

OVERVIEW OF ASIANPAINTS

Over the course of 25 years Asian Paints has become a corporate force and India’s leading paints company. Driven by its strong consumer-focus and innovative spirit, the company has been the market leader in paints since 1968. Today it is double the size of any other paint company in India. Asian Paints manufactures a wide range of paints for Decorative and Industrial use. Vertical integration has seen it diversify into products such as Phthalic Anhydride and Pentaerythritol, which are used in the paint manufacturing process. Asian Paints along with PPG Inc, USA, one of the largest automotive coatings manufacturers in the world has begun a 50:50 joint venture, Asian PPG Industries to service the increasing requirements of the Indian automotive coatings market. Another wholly owned subsidiary, Asian Paints Industrial Coatings Limited has been set up to cater to the powder coatings market which is one of the fastest growing segments in the industrial coatings market. This wholly owned subsidiary of Asian Paints has entered into a tie-up with Canada-based Protech Chemicals which is one of the top ten powder coatings companies in the world for technological knowhow in the area of powder.

DATA ANALYSIS AND INTERPRETATION

CASH FLOW ANALYSIS

The evaluation of a company's cash inflows and outflows from operations, financing activities, and investing activities is known as a cash flow analysis. In other words, this is a look at how the business makes money, where it comes from, and how much what it means in terms of the company's overall value. Usually, they employ the Statement of Cash Flows, a document that details the actual cash flows from investing, financing, and operating activities that entered and left the company over a specific time period, along with a few other reports.

RATIO ANALYSIS

Comparing two businesses with different sizes, operations, and management philosophies using ratio analysis is a great idea. It's also a great way to gauge how effectively a company runs its operations and how profitably the company is structured. As an illustration, solvency ratios be used to evaluate a

company's potential ability to fulfill its financial obligations. Corporate finance ratios are numerical measurements that are employed in the evaluation of businesses. Financial analysts, equity research analysts, investors, and asset managers use these ratios to assess the general financial health of businesses with the ultimate goal of improving investment choices.

LIQUIDITY RATIO

Financial analysts use liquidity ratios to assess a company's financial soundness. These ratios gauge an organization's capacity to pay off both short- and long-term debt. When deciding whether or not to extend credit to a company, liquidity ratios are frequently used to assess the riskiness of the company.

Liquidity ratio	2021	2020	2019	2018	2017
Current ratios	2.18	1.82	1.58	1.62	1.89
Quick ratios	1.49	0.94	0.9	0.98	1.13
Debt equity ratio	0.03	0.03	0.07	0.06	0.07

LEVERAGE RATIO

One of the most crucial financial ratios is the leverage ratio, which shows how much of the company's capital is held in the form of debt. It also examines the business's ability to fulfill its obligations. Leverage ratio is more important as it examines the capital structure of the business and how that structure can be managed to enable debt repayment.

Leverage ratio	2021	2020	2019	2018	2017
Debt to equity	0.03	0.03	0.07	0.06	0.07
Interest coverage ratio	47.66	36.02	32.07	87.19	97.17

PROFITABILITY RATIO

The ability of a company to generate revenue in relation to its revenue, operating expenses, balance sheet assets, and shareholders' equity is evaluated using a set of metrics known as profitability ratios. Profitability ratios also demonstrate how effectively businesses utilize their current resources create value and profit for the shareholders.

Profitability ratio	2021	2020	2019	2018	2017
Gross profit margin	14.63	13.47	11.26	12.19	13.05
Net profit margin	33.13	28.39	22.59	21.39	20.5
Operating margin	11.21	7.91	7.47	6.42	6.83

TURNOVER RATIO

The turnover ratio is the formula used to determine how many units of any asset are used by a company to produce revenue from sales. It is the relationship between a company's asset size and its revenue from those assets.

Turn over ratios	2021	2020	2019	2018	2017
Asset turnover ratio	105.3	126.54	119.7	122.26	122.09
Inventory turnover ratio	5.93	6.08	6.34	6.5	5.76

FINDINGS, SUGGESTIONS AND CONCLUSION

- The Quick ratio are at maximum of (1.49) in 2021, while minimum of (1.13) in 2017.
- The Interest coverage ratio is quite low (47.66) in 2021 while comparing to maximum (97.17) in 2017.
- The Gross profit margin are at maximum (14.63) in 2021, while it is minimum (11.26) in 2019.
- The Asset turnover ratio is too maximum (126.54) in 2020, while minimum (105.31) in 2020.

SUGGESTION

- Obtaining the company's financial statements is necessary before you can start your analysis. The cash flow statement, income statement, and balance sheet are all examples of this. Your knowledge of the company's financial position and performance will be provided to you by these statements.
- To get a better understanding of Asian Paints Pvt. Ltd's financial performance, you can compare its

ratios with those of its industry peers. This will help you determine how the company is performing relative to its competitors.

- You can offer suggestions to the business based on your analysis. This might involve making recommendations for raising productivity, cutting costs, or minimizing risk.

CONCLUSION

In conclusion, the financial statement analysis of Asian Paints Pvt. Ltd revealed that the company has been performing well in recent years. The company has been able to maintain a steady growth rate in revenue and net profit, and its liquidity position is strong. Additionally, the company's efficiency and profitability ratios are impressive, indicating that it is utilizing its resources effectively and generating strong returns for its shareholders. The analysis also revealed that Asian Paints Pvt. Ltd is performing well relative averages, indicating that the company is competitive and well- positioned to succeed in its market. Based on the analysis, some recommendations for the company could include further investments in research and development to drive innovation, and continued focus on cost management to maintain profitability in a competitive market.

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