



A study on financial performance evaluation of selected paint companies in India

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Abstract

As people are shifting their preferences from whitewashing to paint and emulsions, importance of paint industry is growing day by day. Paint industry is playing vital role in our economy. The present study aims to evaluate financial performance of selected Indian paint companies namely, Asian Paints Ltd., Berger Paints India Ltd., Kansai Nerolac Paints Ltd. and Akzo Nobel India Ltd. from the year 2017-18 to 2021-22. The study attempts to measure financial performance with the help of various accounting ratios with regard to profitability, liquidity, activity and solvency. ANOVA analysis has shown that the financial performance of these selected paint companies is significantly different.

Keywords: Financial performance, profitability ratio, activity ratio, solvency ratio, liquidity ratio, paint industry

Introduction

In this modern time, companies are using multifaceted and automated approaches to attain fast and large-scale improvements in performance. Financial performance analysis has been that tool to measure the performance of companies. With financial performance analysis, it can be monitored finance related activities, and it throws light to the degree to which the company have obtained its financial objectives.

Financial performance is multilayered approach for assessing the financial performance of company. In this assessment process, the financial statements and records are examined. In which working capital, financial structure and other financial activities and profitability are analyzed. So, these are the areas of financial performance analysis. Financial performance is a process of calculating the monetary value of results of company's activities. So, it is a generic term which indicates company's overall financial health. As doctor cannot say anything about your health with just taking temperature, there is no single way to analyze financial health of the company. There are many ways to measure a company's financial performance. These ways are, profitability ratios, liquidity ratios, activity ratios, solvency ratios. This analysis is very vital for the connected parties to the company. These parties may include investors, shareholders, management, creditors, government and sometimes research scholars too.

Review of literature

have conducted a study on "Financial Performance of Pharmaceutical Industry In India Using Dupont Analysis". The data used for the study has been secondary. Study period has been from 2003 to 2012. Cipla pharmaceutical, Dr. Reddy's laboratories, Ranbaxy pharmaceutical has been the sample units. The paper has examined ROA and ROA applying DuPont analysis. The study has revealed that Cipla pharmaceutical was the best performer of all three companies.

have written a research article on "financial performance of the steel industry in India: A critical analysis". This study examines the financial performance of the selected companies. Researchers have used various ratios to analyze

financial performance and applied ANOVA for further analysis.

has done a study on "A comparative analysis of the financial performance of selected Indian it companies during 2010-14". The researcher has used secondary data. The study has been for the period of 5 years. Sample size for the study has been 4 namely, TCS, Wipro, Infosys and Tech Mahindra. The study concluded that Infosys was the most like gold dust company for investors.

have written a paper on "A study of financial performance analysis of Indian tobacco corporation limited". The researcher has used secondary data for present study. The study period for the study has been 5 years from 2013 to 2017. The objective of the study was to examine the solvency, profitability and liquidity. The results have shown that company should minimize operating expenses to get more net profit.

have done a study on "Financial performance analysis of selected Indian it companies: a comparative study". The findings of the study have revealed that the performance of Wipro and Infosys was satisfactory among all the selected companies. Infosys 's performance was best in terms of profitability and liquidity. And Wipro's performance was good with respect to ROE. And HCL and TCS was on the third and fourth position.

Objective of the study

The broad objective of this study is to analyze financial performance of selected paint companies with respect to profitability, liquidity, activity and solvency.

Hypotheses of the study

H₀: There is no significant difference in financial performance of selected paint companies with respect to profitability ratios.

H₀: There is no significant difference in financial performance of selected paint companies with respect to liquidity ratios.

H₀: There is no significant difference in financial performance of selected paint companies with respect to activity ratios.

H₀: There is no significant difference in financial performance of selected paint companies with respect to solvency ratios.

Research methodology

Universe

All the Indian paint companies are the universe of the study.

Population

The paint companies which are listed on BSE are the population of the study. There are seven paint companies listed on BSE.

Sampling design

From the population, top 4 paint companies have been taken as representative of the whole population. These samples have been selected on the basis of net profit as on 12th February, 2023.

Sampling units

The samples have been selected with the help of judgmental sampling technique.

Table 1

Sr. No.	Name of the company	Net profit (Rs. cr)
1	Asian Paints Ltd.	3134.71
2	Berger Paints India Ltd.	749.86
3	Kansai Nerolac Paints Ltd.	374.33
4	Akzo Nobel India Ltd.	290.00

(www.moneycontrol.com)

Period of the study

The study has covered the period of 5 years from 2017-18 to 2021-22.

Data collection

The study has been based on secondary data. The data needed for the study has been collected from annual reports of the companies, related literature and related websites.

Tools and techniques

Researcher has used various accounting ratios as accounting tool. In statistical tool, researcher has used ANOVA test analysis.

Data analysis

Profitability Ratio (ANOVA single factor)

Profitability ratios are financial indicator that assesses a company’s ability to generate profits from its operational activities. These ratios help determine the company’s financial performance at the end of an accounting period by revealing how effectively it earns profits.

H₀: There is no significant difference in financial performance of selected paint companies with respect to profitability ratios.

Table 2

Variables	Sources of Variation	SS	df	MS	F	F critical	Result
Operating Profit Ratio	Between Groups	115.2837	3	38.42789	7.253896	3.238872	H ₀ is rejected
	Within Groups	84.76084	16	5.297553			
	Total	200.0445	19				
Gross Profit Ratio	Between Groups	94.95382	3	31.65127	6.244218	3.238872	H ₀ is rejected
	Within Groups	81.10228	16	5.068893			
	Total	176.0561	19				
Net Profit Ratio	Between Groups	33.31386	3	11.10462	2.713216	3.238872	H ₀ is accepted
	Within Groups	65.4846	16	4.092788			
	Total	98.79846	19				
Return on Assets	Between Groups	167605.8	3	55868.61	258.1813	3.238872	H ₀ is rejected
	Within Groups	3462.287	16	216.3929			
	Total	171068.1	19				
Return on Capital Employed	Between Groups	505.502	3	168.5007	9.907322	3.238872	H ₀ is rejected
	Within Groups	272.1231	16	17.00769			
	Total	777.6251	19				

Liquidity Ratio (ANOVA single factor)

Liquidity ratios gauge a company’s capacity to settle its immediate obligations. They assess how expeditiously a company can convert its assets into funds to meet arising liabilities. A higher ratios signifies enhanced ability to repay

debts promptly and prevent payment defaults.

H₀: There is no significant difference in financial performance of selected paint companies with respect to liquidity ratios.

Table 3

Variables	Sources of Variation	SS	df	MS	F	F critical	Result
Current Ratio	Between Groups	2.07706	3	0.692353	21.89606	3.238872	H ₀ is rejected
	Within Groups	0.50592	16	0.03162			
	Total	2.58298	19				
Quick Ratio	Between Groups	1.10556	3	0.36852	18.22327	3.238872	H ₀ is rejected
	Within Groups	0.32356	16	0.020223			
	Total	1.42912	19				

Activity Ratio (ANOVA single factor)

Activity ratios are employed to evaluate an organization’s effectiveness in utilizing its assets to generate cash and revenue. They assess the extent of investment in an asset and revenue it generates. Hence, activity ratios are also

referred as efficiency ratios, as they measure the efficiency with which assets are utilized to generate income.

H₀: There is no significant difference in financial performance of selected paint companies with respect to activity ratios.

Table 4

Variables	Sources of Variation	SS	df	MS	F	F critical	Result
Inventory Turnover Ratio	Between Groups	9.3668	3	3.122267	3.614101	3.238872	H ₀ is rejected
	Within Groups	13.8226	16	0.863913			
	Total	23.1894	19				
Debtors Turnover Ratio	Between Groups	43.20678	3	14.40226	36.81277	3.238872	H ₀ is rejected
	Within Groups	6.25968	16	0.39123			
	Total	49.46646	19				
Assets Turnover Ratio	Between Groups	1.690055	3	0.563352	27.42705	3.238872	H ₀ is rejected
	Within Groups	0.32864	16	0.02054			
	Total	2.018695	19				

Solvency Ratio (ANOVA single factor)

A solvency ratio evaluates the ability of a company’s cash flow to sufficiently cover its long-term debts. Solvency ratios play a critical role in evaluating the financial stability

of a company and can provide insight into a probability of debt default.

H₀: There is no significant difference in financial performance of selected paint companies with respect to solvency ratios.

Table 5

Variables	Sources of Variation	SS	df	MS	F	F critical	Result
Debt-equity Ratio	Between Groups	0.08586	3	0.02862	55.57282	3.238872	H ₀ is rejected
	Within Groups	0.00824	16	0.000515			
	Total	0.0941	19				
Interest Coverage Ratio	Between Groups	2355.365	3	785.1216	1.683317	3.238872	H ₀ is accepted
	Within Groups	7462.616	16	466.4135			
	Total	9817.981	19				

Major findings

In profitability ratios, ANOVA table indicates that, the profitability of selected paint companies is significantly different with respect to operating profit ratio, gross profit ratio, return on assets as well as return on capital employed because researcher has failed to accept the null hypotheses. But there is no significant difference in net profit ratio of selected companies as the null hypothesis is accepted.

In liquidity ratios, ANOVA table shows that, there is a significant difference in liquidity of selected paint companies with regard to current ratio and quick ratio as the researcher has failed to accept the null hypotheses in this case.

In activity ratios, ANOVA table displays that, activity ratios are significantly different in selected paint companies with respect to inventory turnover ratio, debtor turnover ratio and assets turnover ratio. As the null hypotheses are rejected.

In solvency ratios, ANOVA table exhibits that, there is a significant difference in debt-equity ratio of selected paint companies but there is no significant difference in interest coverage ratio of selected paint companies.

Conclusion

The study has been done to do financial performance evaluation of selected paint companies. Indian paint industry right now witnessing the shift of people from traditional whitewash to high quality emulsions. And also, it is contributing to economy on a very large scale. Indian paint industry is becoming fastest-growing industries in world. In present study the researcher has taken various profitability, liquidity, solvency and activity ratios to evaluate financial performance. Various accounting ratios and their statistical analysis have shown that there is a significant difference in performance of selected paint companies as the researcher has failed to accept the null hypotheses in major cases. Which clearly indicates that

selected 5 paint companies perform differently than one another.

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