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Financial Performance Analysis of Asian Paints

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Abstract

This paper's main goal is to use ratio analysis to examine Asian Paints Company Ltd.'s overall financial status. The latest five years' worth of data is obtained from yearly reports, which constitutes the entirety of the study's usage of secondary data. In this study, various ratio types such as liquidity ratios, profitability ratios, and solvency ratios are analysed. This essay not only discusses the company's financial situation but also identifies its issues and provides solutions to boost productivity.

Keywords: Asian Paints Company Ltd, financial performance, financial statements, profitability, ratio analysis

INTRODUCTION

Asian Paints

An international paint business with its headquarters in Mumbai, Maharashtra, is called Asian Paints Ltd. It is involved in producing, marketing, and distributing paints, coatings, and related services. The largest paint company in both Asia and India is Asian Paints.

A public limited firm, that is, "Asian Oil and Paints Company" was the name given to the business when it was founded in 1942. Its annual revenue rose to 3.5 lacs in less than three years. Asian Paints rose to the position of 10th largest paint manufacturer globally in 1967. Asian Paints went public in 1973, and was listed on the BSE and NSE [1, 2].

Ratio Analysis

A common tool for financial analysis is ratio analysis. One of the most effective and widely used techniques for analysing financial statements is ratio analysis. The act of figuring out and analysing the various components of financial statements is known as ratio analysis. Ratio analysis aids in assessing the firm's performance in terms of profitability, effectiveness, and risk. It is a tool for analysing and deciphering a company's financial situation. We compare numbers from financial statements when performing a ratio analysis. The mathematical or arithmetic relationship between two figures is known as a ratio. It makes financial statements easier to interpret for users including shareholders, investors, creditors, the government, and analysts, among others [3, 4].

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RESEARCH METHODOLOGY

Research Design

- Apex Capital Ltd. has been selected.
- To compare performance, financial statements for the subsequent period have been taken into account.
  - 2018–2019
  - 2019–2020

  - 2020–2021
  - 2021–2022
- Their ratio analysis has been done.

Sample Size

Apex Capital Ltd. has been selected.

Period of Study

Five-year data has been collected for the financial statement analysis using ratio analysis, i.e., from financial year 2018–2019 to 2021–2022.

Tools for Data Analysis

- Ratio analysis

Tools for Presentation

- Tables
- Charts
- Bar graphs

Data Collection

Secondary sources were used for data collection, such as:

- Websites
- Annual financial reports

ANALYSIS AND INTERPRETATION OF DATA

Current Ratio Interpretation

Table 1 shows Asian Paints' five-year current ratio, which is also displayed in the graph here. The current ratio is typically seen as 2:1. The company's current ratio is at its maximum in 2020–2021 (2.02), indicating that current assets outpace current liabilities at that time (Figure 1). But in 2017–18, 2018–19, and 2019–20, the current ratio was below 2:1 which means that it has less than 2 times its liabilities in assets and the company is not currently able to meet its financial obligations [5].

Table 1. Current ratio from the year 2017 to 2022.

Year	Current assets	Current liabilities	Ratio
2017–2018	6914.08	4451.07	1.55
2018–2019	7634.05	5028.87	1.51
2019–2020	7580.11	4380.38	1.73
2020–2021	12026.6	5925.86	2.02
2021–2022	15152.33	7570.99	2.00

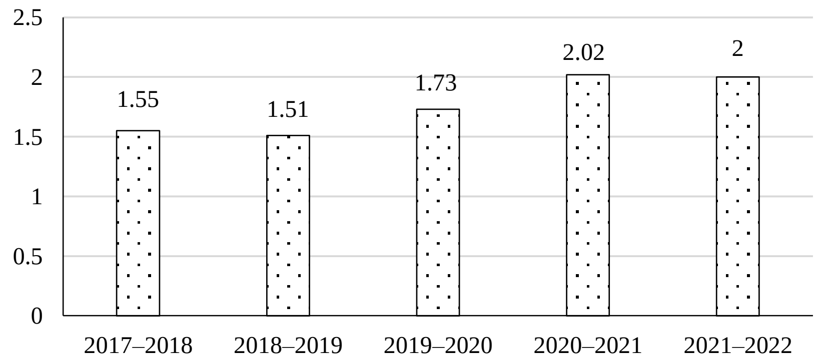

Figure 1. Graphical representation of the current ratio from the year 2017 to 2022.

Quick Ratio Interpretation

As shown in Table 2, the standard form of the quick ratio is 1:1. The company's highest quick ratio, 1.38 in 2020–21, shows that it has enough liquid assets to cover its short-term liabilities and the company's lowest quick ratio is 0.89 (Figure 2). For the following three years, in 2017–18, 2018–19, and 2019–20, the ratio was less than 1, which indicates that the company has insufficient quick assets to meet its financial obligations in the event of a financial crisis [6].

Cash Ratio Interpretation

The graph given in Figure 3 shows the cash ratio of the Asian Paints company. The company's highest cash ratio, 0.128 in 2019–20, shows that it will be able to cover its current liabilities with cash and cash equivalents (Figure 3). In 2017–18, the cash ratio is 0.07, then in 2018–19, it decreased to 0.054, in 2019–20, it increased to 0.128, in 2020–21, it decreased to 0.058, and then in 2021–22, it increased to 0.082 (Table 3). The company's lowest ratio, 0.054, shows that there is not enough cash on hand to pay off short-term debt [7].

Table 2. Quick ratio analysis from the year 2017 to 2022.

Year	Current assets	Inventory	Current liabilities	Ratio
2017–2018	6914.08	2658.31	4451.07	0.95
2018–2019	7634.05	3149.81	5028.87	0.89
2019–2020	7580.11	3389.81	4380.38	0.95
2020–2021	12026.6	3798.6	5925.86	1.38
2021–2022	15152.33	6152.98	7570.99	1.18

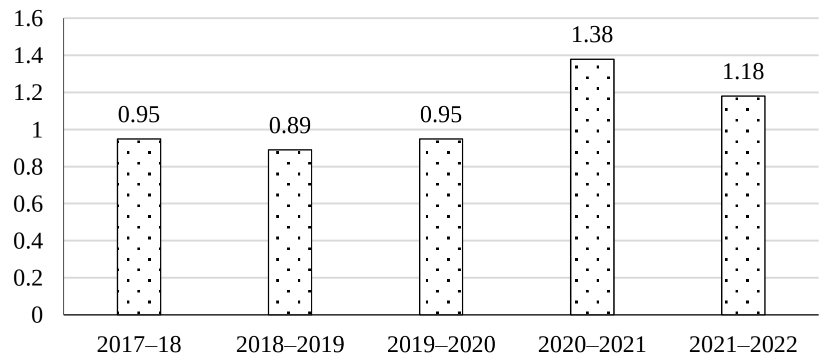

Figure 2. Graphical representation of quick ratios from the year 2017 to 2022.

Table 3. Cash ratio analysis from the year 2017 to 2022.

Year	Cash and cash equivalents	Current liabilities	Ratio
2017–18	312.12	4451.07	0.070
2018–19	275.97	5028.87	0.054
2019–2020	563.83	4380.38	0.128
2020–2021	346.39	5925.86	0.058
2021–2022	621.72	7570.99	0.082

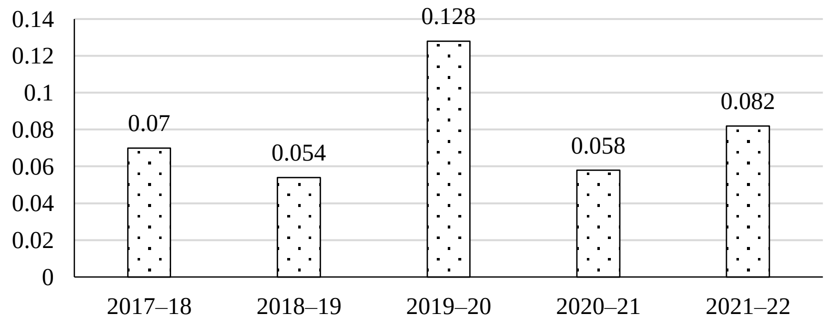

Figure 3. Graphical representation of cash ratios from the year 2017 to 2022.

Working Capital Turnover Ratio Interpretation

From the five-year data given in Table 4, we can interpret that the working capital turnover ratio of the company is decreasing. In 2017–18, the working capital turnover ratio of the company was 7, in 2018–19, it increased to 7.42 which is the highest ratio of the company which means that the company is managing the short-term assets and liabilities very efficiently (Figure 4). In 2019–20, it decreased to 6.31, in 2020–21, it was 3.55 which is the lowest ratio of the company which indicates that the company is investing too much on accounts receivable and inventory [8].

Return on Capital Employed Interpretation

From the five-year figure in Table 5, it shows that return on capital employed (ROCE) is decreasing every year. In 2017–18, it was 32.7%, which is the highest ratio of the company, and indicates that the company's capital is being used effectively. In 2018–19, it decreased to 31.23% (Figure 5), and in 2019–20, it increased to 31.3%, and in 2020–21 again, it decreased to 30.23%, and in 2021–22, it was 28.33%, which is the lowest ratio of the company and it indicates that the company is earning less [9].

Table 4. Working capital turnover ratio from the year 2017 to 2022.

Year	Net sales	Working capital	Ratio
2017–2018	17262.23	2463.01	7.00
2018–2019	19349.84	2605.18	7.42
2019–2020	20211.25	3199.73	6.31
2020–2021	21712.79	6100.74	3.55
2021–2022	29101.28	7581.34	3.83

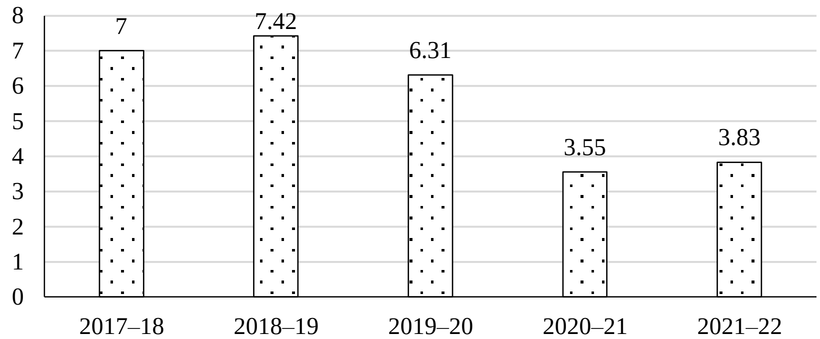

Figure 4. Graphical representation of working capital ratio from the year 2017 to 2022.

Table 5. Return on capital employed from the year 2017 to 2022.

Year	EBIT	Capital employed	Ratio (%)
2017–18	3057.76	9332.01	32.7
2018–19	3320.91	10632.46	31.23
2019–20	3685.58	11774.39	31.30
2020–21	4367.38	14443.76	30.23
2021–22	4367.26	15413.46	28.33

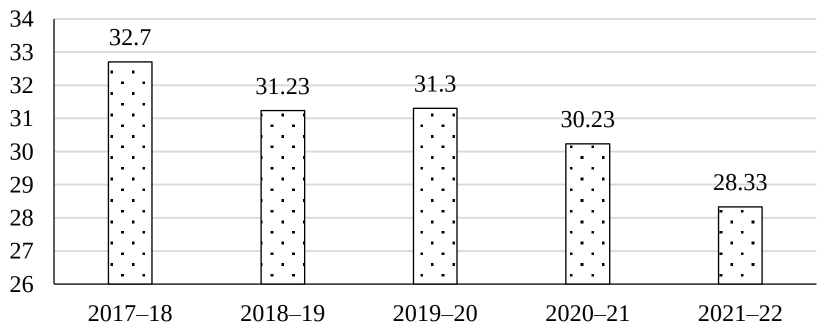

Figure 5. Graphical representation of return on capital employed (ROCE) from the year 2017 to 2022.

Return on Equity (%) Interpretation

From the graph given in Figure 6, it shows that the ROE of the company was highest in 2019–20, which was 27%. In 2017–18, it was 24.9%, in 2018–19, it decreased to 23.3%, then in 2019–20, it was 27%, and in 2020–21, it gradually decreased to 25%; in 2021–22 again, it decreased to 22% (Table 6). But here, 20% ROE is considered good, which means that in all five years, the company has utilised the shareholders money efficiently [10].

Table 6. Return on equity from the year 2017 to 2022.

Year	Net income	Shareholder's equity	Ratio (%)
2017–18	2098	8410	24.9
2018–19	2208	9471	23.3
2019–20	2774	10130	27
2020–21	3207	12806	25
2021–22	3085	13811.56	22

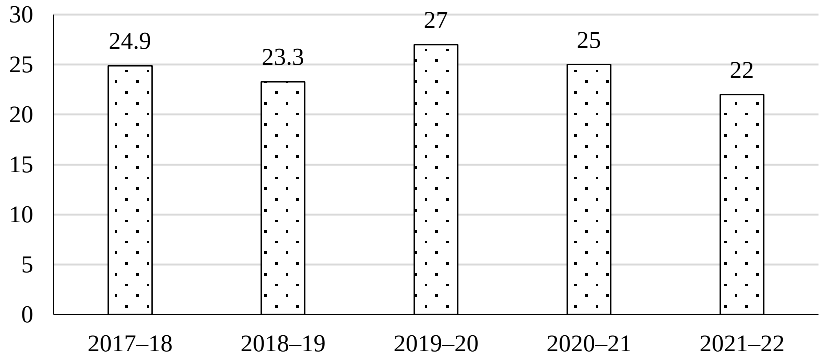

Figure 6. Graphical representation of return on equity (ROE) from the year 2017 to 2022.

FINDINGS

- The company's current ratio is rising, indicating that it has the financial resources necessary to sustain itself in the short run.
- There is a fluctuation in the quick ratio, but it is highest in 2020–2021, it means the company has sufficient funds to meet its current liabilities.
- The company's cash ratio fluctuates, indicating that there is not enough cash on hand to pay down short-term debt.
- If a company's working capital turnover ratio is declining, it probably invests too much in inventory and accounts receivable to support sales.
- The return on equity of the company is at its highest (27%) in the year 2019–20.

SUGGESTION

After analysing the given data, the following recommendations were made to the company for the expansion and growth of the company.

- In the first three years, the business's quick ratio was less than 1. The company can improve its liquidity ratios by employing long-term financing to pay off its debts, managing receivables and payables well, and reducing some expenses.
- The working capital turnover ratio of the company is decreasing, so it can increase it by reducing slow-moving inventory, increasing the inventory turnover cycles, and avoiding stockpiling.
- The return on equity ratio of the company is low, so it can increase it by reducing the value of shareholders' equity. Increased liabilities (such as taking on additional debt financing) are one approach to artificially improving ROE without necessarily increasing profitability because equity is equal to assets minus liabilities.

- The ROCE of the company is decreasing; it can increase it by reducing costs or increasing sales. Operational efficiency requires close attention to any areas where expenses may be rising too quickly or being used inefficiently.

CONCLUSION

An essential tool for evaluating a company's success is the analysis and understanding of its financial statements. It exposes a firm's assets and liabilities. It assists the clients in determining which company carries the lowest risk or where they should invest to obtain the greatest return.

Financial performance is a fundamental tool that gives all information about the company's financial status and operational effectiveness. Several ratios are employed to assess the concern's profitability, solvency status, and effectiveness or performance level. Financial ratios are used to assess a company's solvency, profitability ratios to assess its profitability position, and turnover ratios to assess its efficacy. The investigation that was done has revealed the following findings. It is possible to conclude that the company's profitability situation is strong based on the analysis of several ratios. The company's current ratio, quick ratio, and cash ratio are all rising. The company's return on capital employed is declining. The company's working capital is declining, which indicates that it is spending too much on inventories and accounts receivable to maintain sales. The overall financial performance was determined to be satisfactory by analysis. The business must take the necessary actions to boost sales, minimise operating costs, or both. Asian Paints Company Ltd consists of high capital and investment, and business performance will be only being in moderate level. If the company concentrates more on the financial aspects and reduces unwanted costs, it will reach a more profitable position in the near future.

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