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A COMPARATIVE STUDY OF LIQUIDITY ANALYSIS OF ASIAN AND NEROLAC PAINTS 2018-2023

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ABSTRACT :

This study offers a comparative examination of two prominent paint brands in the Indian market, Asian Paints and Nerolac Paints. It delves into key aspects such as paint composition, quality, color range, durability, and pricing. Through surveys, interviews, and product testing, the research aims to provide an insightful analysis of the strengths and weaknesses of each brand. Furthermore, it investigates consumer preferences and perceptions towards these brands, revealing the factors influencing their purchasing decisions. The study's findings are expected to be valuable for consumers, industry practitioners, and policymakers, offering a deeper understanding of the paint market dynamics and aiding in informed decision-making.

KEYWORD: Ratio analysis, financial performance, TATA, JSW, Liquidity, Profitability, Activity

INTRODUCTION :

The topic is named “A comparative study of liquidity analysis of Asian and Nerolac paints” which aims to perform a comparison between the Asian and Nerolac paints companies based on their financial performance of the last 4 years (2020,2021,2022 and 2023) through ratio analysis.

Comparative study – It refers to a study where a comparison is done between 2 or more companies which can be based on their financial performance, employee retention, etc.

REVIEW OF LITERATURE :

- P Das, 2020 That sounds like an interesting research approach! Panel regression analysis can provide valuable insights into the relationship between profitability and liquidity in the context of these paint companies. If you need any assistance with your research or analysis, feel free to ask! The Hausman test indicated that the Random Effects Model (REM) was the most suitable model for our analysis.
- PL Joshi, S Ramani, 1991, This study utilizes multiple discriminant analyses to identify the key financial metrics that influence company-level performance, focusing on the paint industry as a case study. The findings suggest that liquidity and sales turnover are the most significant variables affecting the financial productivity and profitability of the paint industry in India.
- K Gandhi, 2018, The research follows a structured approach known as Economic, Industry, and Company Analysis (EIC) in its fundamental analysis. The Indian paint industry is experiencing significant growth, driven by innovations such as environmentally friendly, odor-free, and durable paints, which have attracted a large customer base. This industry is expected to have promising prospects in theU upcoming year. The analysis relies on secondary data collected from various sources, including reports from the Reserve Bank of India (RBI), the National Stock Exchange (NSE) website, and the annual reports of both companies. Using the EIC approach, the fundamental analysis of both companies aims to determine their intrinsic value.

- Biswas, 2018, this study aims to examine the relationship between profitability and dividend payout ratio among selected companies. The analysis reveals a correlation and regression between profitability and dividend payout ratio specifically for Asian Paints.
- Prem, Rathan J., & Keerthi, H. K. (2019, Asian Paints Limited is an Indian company specializing in the production of a diverse range of paints for both decorative and industrial purposesThe company aspires to be one of the world's top five decorative coatings companies, capitalizing on its proficiency in high-growth emerging markets. Asian Paints also aims to generate enduring value in the industrial coatings sector by collaborating with well-established global entities. With a turnover of Rs 109.70 billion, Asian Paints ranks as the third-largest paint company in Asia.

- H Rustgi, S Chawla, 2020, Our findings indicate that the cash conversion cycle and inventory turnover ratio are negatively correlated with profitability, while the quick ratio shows a positive relationship. Additionally, we observed that variables such as debt-to-equity ratio have a positive impact on profitability, while firm size has a negative effect. Furthermore, our research suggests that when all these factors are considered together, they significantly influence the profitability of firms. This insight can help companies improve their performance by effectively managing these factors to enhance profitability. It also provides companies with valuable insights into strategies for increasing profit margins in a competitive market..

- KJ Patel, V. Vidyanagar, 2021 The company manufactures and sells decorative and industrial paint products under multiple brand names. Conducting a fiscal performance analysis is essential to determine the financial stability of the company and its ability to support financial investments. This study compares the fiscal performance of two companies using various operating ratios. The analysis is based on secondary data for the periods 2017-2018, 2018-2019, and 2019-2020.

- Y.J.Nayyef, 2023 This study on the cash conversion cycle in paint manufacturing companies sounds intriguing! Analyzing the differences in inventory turnover ratios, payable turnover ratios, receivable turnover ratios, and cash conversion cycles can provide valuable insights into the efficiency of these companies' working capital management.

- S NIRMALA, AY KETTIRAMALINGAM 2019 This study holds significant value and offers benefits to various stakeholders who have direct or indirect interactions with the company. Investors, in particular, stand to benefit by reviewing the study, as it can help them make informed decisions regarding investing in the company's shares. They can assess the company's financial health and performance, aiding in their decision-making process on whether or not to invest in the company's shares.
- A.S.Siddiqui, 2022, The study exclusively utilizes five years' worth of data obtained from annual reports, comprising all the secondary data used in the analysis. It examines various types of ratios, including liquidity ratios, profitability ratios, and solvency ratios. The essay not only evaluates the company's financial position but also identifies its challenges and proposes solutions to enhance productivity.

- L.Sebastia and SS Sundar, 2018, The collected data underwent sorting, cleaning, and entry into the Statistical Package for the Social Sciences (SPSS) for analysis, given its quantitative nature. Correlation and regression models were employed for analysis. The research findings indicated that Free Cash Flow (FCF) may not be a predominant factor influencing profitability (EBITDA) under all circumstances. Investors can gain valuable insights from this, as FCF is considered superior to net income due to its lower susceptibility to manipulation.

NEED FOR STUDY :

A comparative study between 2 companies through ratio analysis is very important in order to provide financial performance of the companies for investors and even understand where the companies stand in the market. Liquidity analysis is important because it provides us with current ratio and quick ratio of the company which tell the liquidity position of the company. Similarly, profitability ratios is also important is order to ascertain the profitability of the company.

OBJECTIVE OF STUDY :

1. Analyze the growth and performance of Asian Paints and Nerolac Paints.
2. Conduct a fundamental analysis of Asian Paints and Nerolac Paints to provide recommendations for improved investment decisions.
3. Evaluate the intrinsic value and market value of Asian Paints and Nerolac Paints using fundamental analysis.

RESEARCH METHODOLOGY :

This paper primarily relies on secondary data gathered from various sources, including the internet, websites of selected companies, company balance sheets, annual reports, press releases, etc. Basic analytical tools are employed to analyze the data for Asian Paints and Nerolac Paints.

- Asian Paints official website: asianpaints.com
- Nerolac Paints official website: nerolac.com
- Screener: screener.com
- Moneycontrol: moneycontrol.com

DATA ANALYSIS :

KEY FINANCIAL RATIOS – The 5 categories of Ratios that have been used in the ratio analysis of Asian and Neroli are as follows –
Liquidity ratio –
current ratio
quick ratio

RATIOS	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
LIQUIDITY RATIO -					
1. CURRENT RATIO	2.38	2.26	2.18	1.82	1.58
2. QUICK RATIO	1.47	1.32	1.49	0.94	0.90

LONG-TERM RATIO –
Inventory turnover ratio
Asset Turnover ratio

PROFITABILITY RATIO –
Net Profit margin
Return on Equity
Return on Capital Employed

RESULT AND DISCUSSION :

DESCRIPTIVE STATISTICS –

Table 1 to Table 2 shows the values of various financial ratios of Asian and Nerolac paints respectively for comparing their performance in 0f last 5 years from March 2019 to March 2023. Various ratios have been taken which are the Current ratio and quick ratio under Liquidity ratio, inventory turnover ratio, Asset turnover ratio under Long-term solvency ratio, and Finally under the Profitability Ratio there comes Net profit margin, return on and equity, return on asset, and Return on Capital employed.

LONG-TERM SOLVENCY RAT-					
1. INVENTORY TURNOVER RATIO	5.65	4.77	5.93	6.08	6.34
2. ASSET TURNOVER RATIO	1.42	1.34	1.19	126.54	119.79
PROFITABILITY RATIO - (%)					
1. NET PROFIT MARGIN	13.63	12.44	16.48	15.43	13.00
2. RETURN ON ASSETS	18.19	15.74	17.35	19.53	15.58
3. RETURN ON CAPITAL EMPLOYED	33.43	30.27	31.99	33.91	33.01

SOURCE – SELF CALCULATED

TABLE 1 - FINANCIAL RATIOS OF ASIAN PAINTS					
TABLE 2 – FINANCIAL RATIOS OF NEROLAC PAINTS					
RATIOS	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
LIQUIDITY RATIO -					
1. CURRENT RATIO	2.52	2.44	2.56	2.71	2.44
2. QUICK RATIO	1.38	1.21	1.60	1.61	1.27
LONG-TERM SOLVENCY RATIO					
1. INVENTORY TURNOVER RATIO	2.80	2.94	4.24	5.24	4.88
2. ASSET TURNOVER RATIO	1.23	1.12	90.03	107.63	120.15
PROFITABILITY RATIO - (%)					
1. NET PROFIT MARGIN	6.86	6.29	11.32	10.83	9.03
2. RETURN ON ASSETS	8.00	6.93	10.19	11.65	10.85
3. RETURN ON CAPITAL EMPLOYED	13.68	12.03	17.27	17.56	20.19

SOURCE – SELF CALCULATED

INSIGHTS –
Now the results related to each specific ratio of each company are presented and discussed as follows –

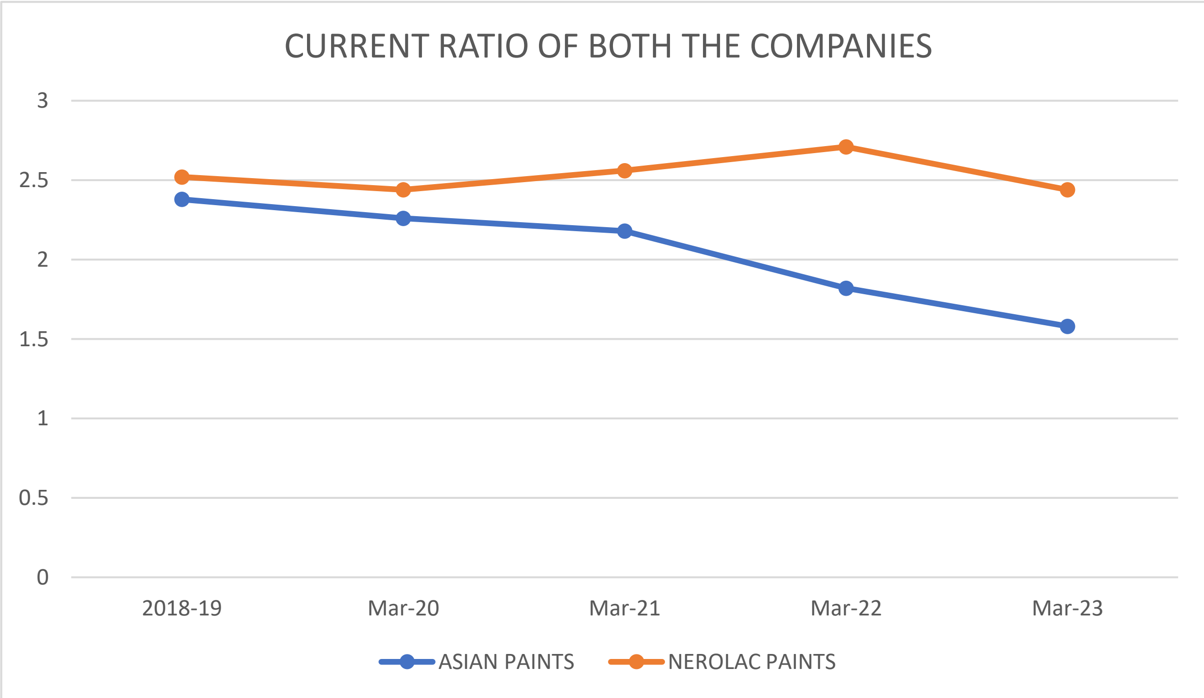
LIQUIDITY RATIO – It refers to the company's capacity to fulfill its immediate financial obligations, specifically its short-term liabilities.It is of 2 types –

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The ideal current ratio varies across industries, reflecting different levels of risk. However, a commonly accepted standard is 2:1, meaning that current assets should be twice the value of current liabilities.

A current ratio of 2 or higher suggests that a company has ample liquidity to fulfill its short-term obligations. Conversely, a ratio below 2 suggests potential difficulties in meeting these obligations.

A current ratio above 1 indicates that a company has more current assets than current liabilities, suggesting a relatively strong liquidity position.



INTERPRETATION

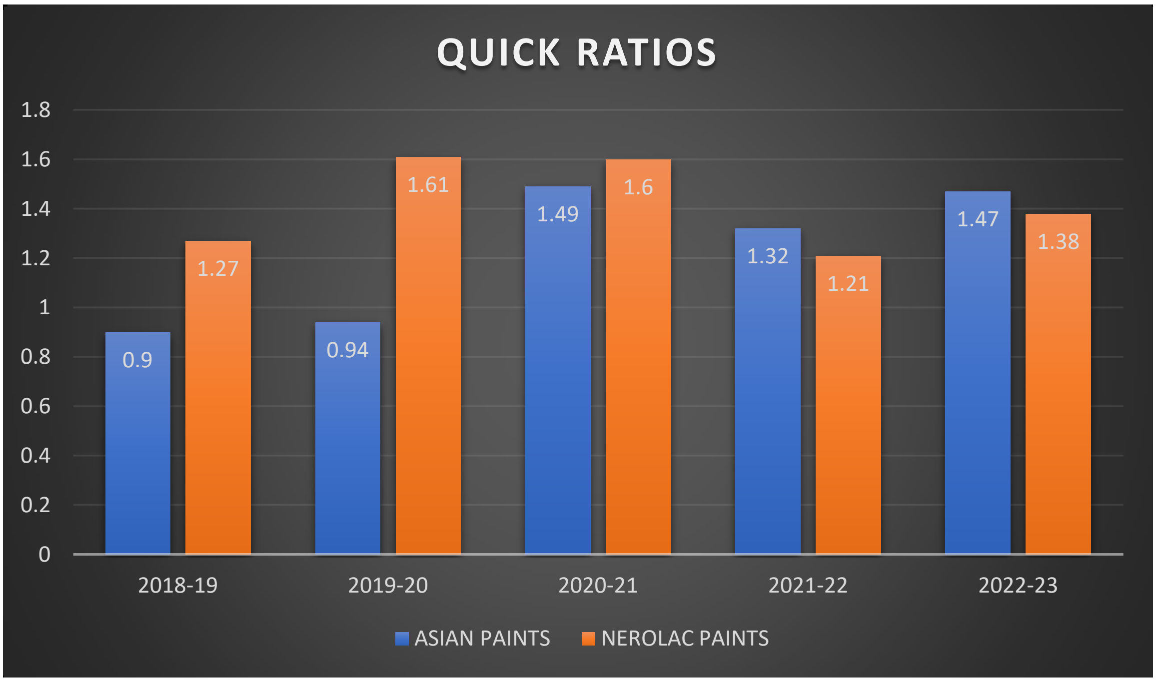
1. Asian Paints has experienced a decline in liquidity over the last five years, with its current ratio decreasing from 2.38 to 1.58. The downward trend indicates that the company might be encountering difficulties in fulfilling its short-term obligations using its current assets.
2. On the other hand, Nerolac Paints has maintained a relatively stable liquidity position over the same period. Despite some fluctuations, the company's current ratio has remained above 2.0, ranging from 2.44 to 2.71.
3. The declining current ratio of Asian Paints raises concerns about the company's financial health and its ability to manage its short-term liabilities effectively.
4. In contrast, the stable current ratio of Nerolac Paints indicates effective management of short-term liabilities and a strong financial standing.
5. Both Asian Paints and Nerolac Paints have current ratios above 1.0, indicating a basic level of liquidity.
6. Overall, while Asian Paints has seen a decline in liquidity, Nerolac Paints has maintained a stable liquidity position, suggesting different financial management strategies or market conditions affecting the two companies.

QUICK RATIO – The liquid/quick/acid-test ratio is a liquidity metric used to evaluate a company's capacity to settle its short-term financial obligations, particularly its current liabilities. It compares liquid assets, which are assets that can be quickly converted into cash, to current liabilities. This ratio provides insight into a company's short-term liquidity position, as it excludes less liquid assets such as inventory from the calculation.

Quick Ratio Formula

$$\text{Quick Ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

The ideal quick ratio is 1:1, which means that for every unit of current liabilities, there is an equivalent unit of quick assets This situation suggests that the company may struggle to meet its short-term financial obligations.



INTERPRETATION

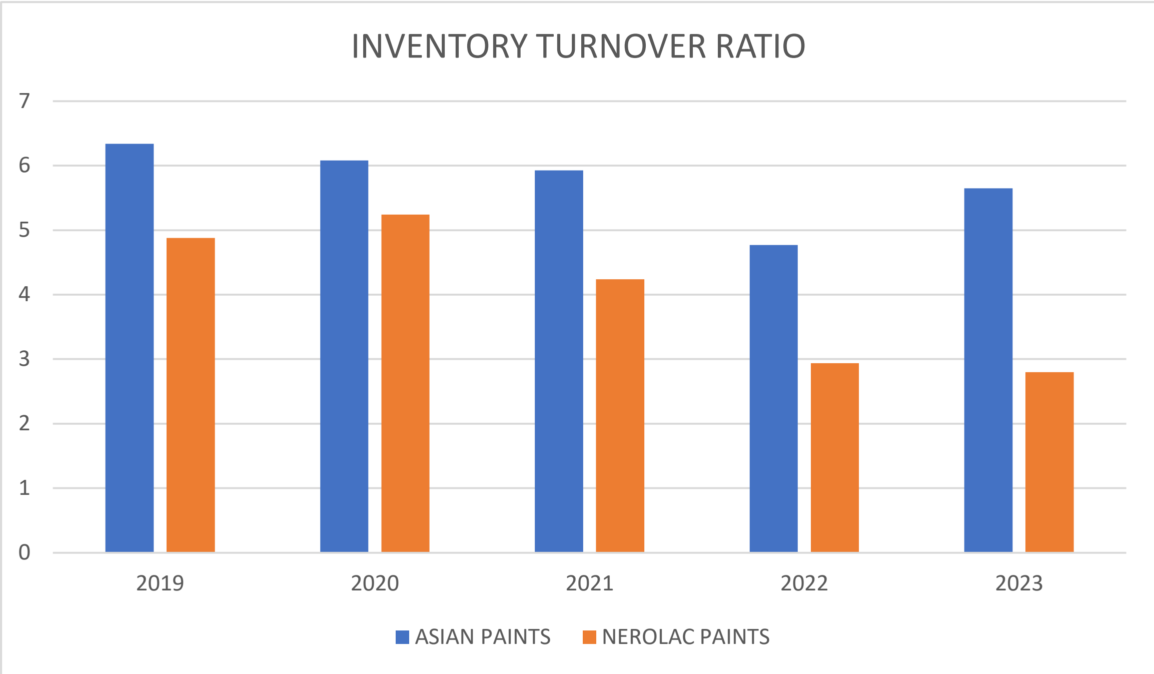
- Nerolac Paints has consistently maintained a robust quick ratio of 2.0 over the past five years, showcasing a steady ability to cover short-term liabilities with its liquid assets.
- In contrast, Asian Paints has displayed more fluctuation in its quick ratio, ranging from 0.90 to 1.49, with an average of 1.22 during the same period.
- The stable and higher quick ratio of Nerolac Paints indicates a more effective management of liquidity compared to Asian Paints.
- Both companies experienced a decline in their quick ratios in the most recent year, suggesting a potential strain on liquidity.
- concerning liquidity.
- Nerolac Paints' consistently superior quick ratio indicates its stronger ability to meet short-term obligations using liquid assets compared to Asian Paints.

LONG TERM SOLVENCY RATIO

The inventory turnover ratio is a critical indicator of a company's inventory management efficiency. It is calculated by dividing the cost of goods sold (COGS) by the average inventory for a specified period. This ratio reveals how swiftly a company sells and replaces its inventory, offering insight into its inventory management effectiveness.

A higher inventory turnover ratio indicates that a company sells its inventory more frequently, typically seen as a positive sign of efficient inventory management.

- On the other hand, a lower inventory turnover ratio may suggest that a company is holding too much inventory, which can lead to issues such as overstocking or difficulties in selling products. This situation can tie up capital and result in higher storage costs, impacting the company's profitability and liquidity.
- To gain a more comprehensive understanding, the inventory turnover ratio should be analyzed alongside other financial metrics and industry benchmarks.



INTERPRETATION

The inventory turnover ratios for Nerolac Paints and Asian Paints over the last five years show interesting trends:

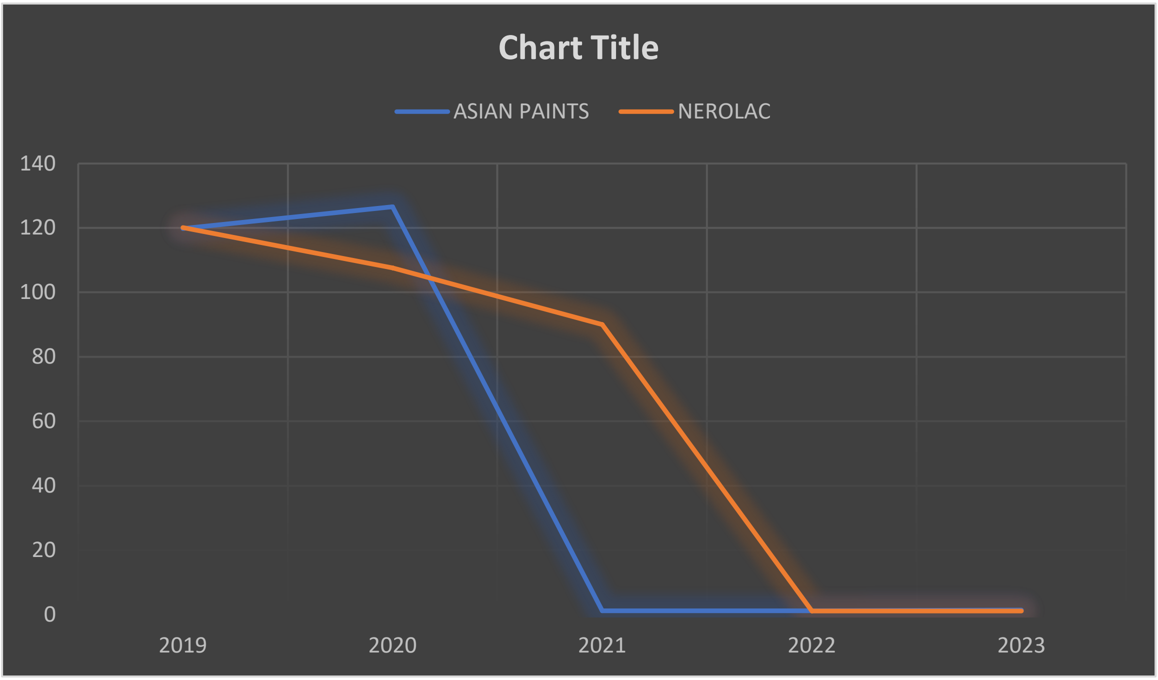
- Nerolac Paints: The inventory turnover ratio for Nerolac Paints has been consistently high, ranging from 4.77 to 6.34 over the five-year period. This indicates that Nerolac Paints has been able to sell and replace its inventory multiple times throughout the year, which is generally a positive sign of efficient inventory management.
- -Asian Paints: On the other hand, the inventory turnover ratio for Asian Paints has also been relatively high, ranging from 2.80 to 5.24 over the same period. While not as consistently high as Nerolac Paints, these ratios still indicate efficient inventory management practices.

Overall, both companies have demonstrated strong inventory turnover ratios, suggesting effective management of their inventory levels. However, Nerolac Paints has shown a more consistent and higher turnover ratio compared to Asian Paints, which could indicate a more efficient inventory management system.

ASSETS TURNOVER RATIO

The asset turnover ratio is a financial metric that gauges how effectively a company uses its assets to generate revenue. It is calculated by dividing the company's net sales by its average total assets. This ratio is instrumental in evaluating the company's ability to generate sales from its asset base.

The asset turnover ratio indicates how much revenue is generated for each dollar invested in assets. A higher ratio suggests more efficient use of assets to generate revenue, while a lower ratio may indicate inefficiency in asset utilization. By comparing this ratio to industry standards or historical data, analysts can gain insights into a company's operational efficiency and its asset management effectiveness.



INTERPRETATION

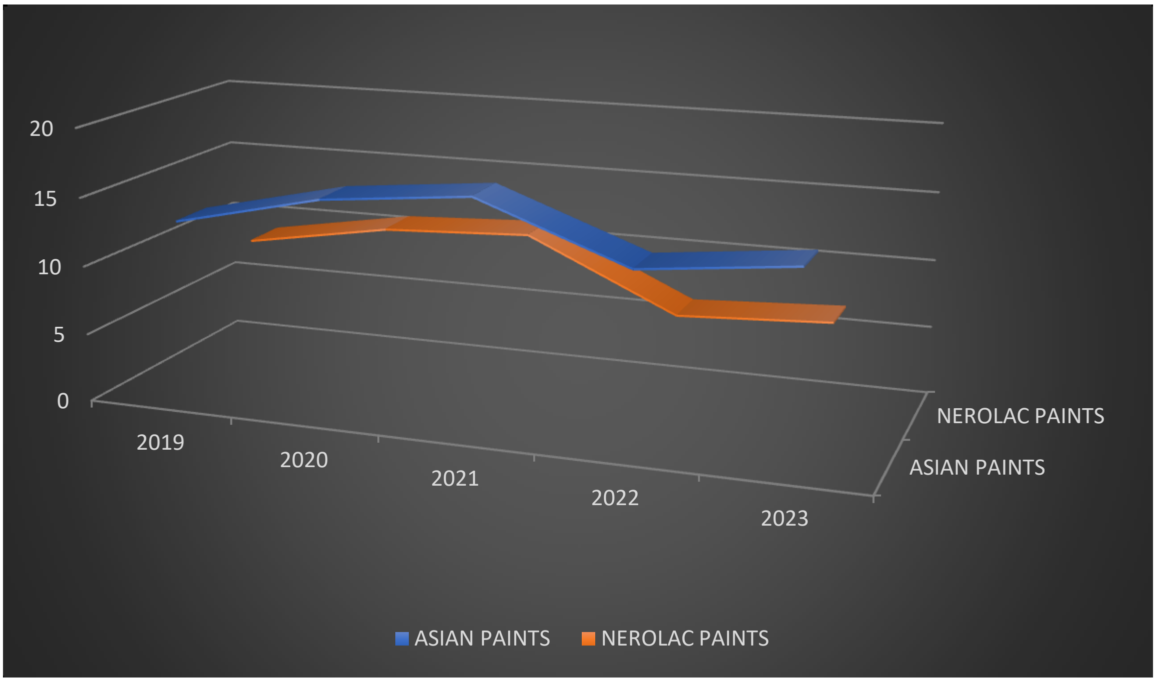
The asset turnover ratios for Nerolac Paints and Asian Paints over the last five years show some interesting trends:

- -Nerolac Paint: The asset turnover ratio for Nerolac Paints has been stable, with values ranging from 1.12 to 120.15 over the five years. The significant increase in 2020 to 90.03 could be an anomaly or due to a specific event affecting their asset base or sales volume. However, the subsequent increase to 120.15 in 2023 suggests a strong recovery and potentially improved efficiency in asset utilization.
- -Asian Paints: In contrast, Asian Paints' asset turnover ratio has been more variable, ranging from 1.19 to 126.54 over the same period. The decrease in 2020 to 1.19 could indicate a temporary slowdown or challenges in asset utilization, which was followed by a significant increase to 126.54 in 2021, suggesting a rapid improvement in efficiency.

Overall, both companies have demonstrated generally strong asset turnover ratios, indicating effective use of assets to generate revenue. However, the fluctuations in the ratios for both companies, particularly in 2020, highlight the importance of monitoring and analyzing financial metrics in context to understand underlying trends and factors affecting operational efficiency.

PROFITABILITY RATIO - (%)

NET PROFIT MARGIN - The net profit margin is a financial ratio that indicates the percentage of revenue that remains as profit after deducting all expenses. It is calculated by dividing the net income by the total revenue and then multiplying by 100 to express the result as a percentage. A higher net profit margin indicates better profitability, as it shows that a company can generate more profit from its revenue. Comparing the net profit margin to industry peers can help assess a company's financial performance and efficiency in managing costs.



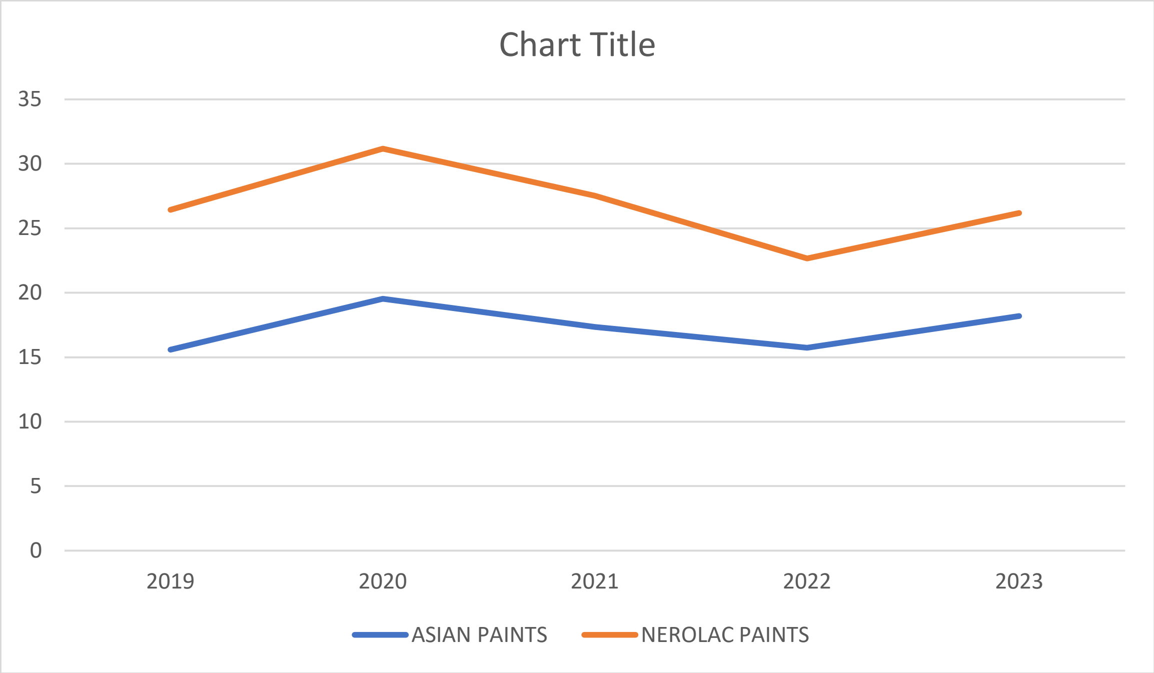
INTERPRETATION

- The net profit margins for Nerolac Paints and Asian Paints over the last five years reveal interesting insights into their profitability trends.
- Nerolac Paints has maintained a relatively stable net profit margin, fluctuating between 6.29% and 11.32% during this period. This indicates that despite some variability, Nerolac Paints has managed to sustain a reasonable level of profitability over time.
- On the other hand, Asian Paints has also shown a stable net profit margin, ranging from 12.44% to 16.48% over the same period. Asian Paints' net profit margin has consistently been higher than that of Nerolac Paints, reflecting a stronger profitability performance.
- The stability in the net profit margins of both companies suggests a certain level of consistency in their ability to manage costs, pricing, and operational efficiency. Asian Paints' higher net profit margin indicates that it has been more effective in generating profits relative to its revenue compared to Nerolac Paints.
- However, it's important Other factors such as revenue growth, market share, and overall financial health should also be considered when evaluating the overall performance of a company.

RETURN ON ASSETS

Return on Assets (ROA) is a financial ratio that assesses a company's profitability by indicating how effectively it utilizes its assets to generate earnings. It is computed by dividing the company's net income by its average total assets. ROA is expressed as a percentage and offers insights into the management's effectiveness in generating profits from the company's asset base.

A higher Return on Assets (ROA) indicates strong efficiency. Conversely, a lower ROA suggests inefficiency in asset utilization. ROA is a critical metric used by investors, analysts, and management to evaluate a company's financial well-being, profitability, and ability to generate returns for shareholders.
Comparing a company's ROA to industry benchmarks and historical performance can help identify trends and assess the company's competitive position within the industry.



INTERPRETATION –

The return on assets (ROA) figures for Nerolac Paints and Asian Paints over the past five years provide valuable insights into their profitability and asset utilization efficiency

Nerolac Paints**: The ROA for Nerolac Paints has shown a relatively stable performance, fluctuating between 6.93% and 11.65%. This indicates that Nerolac Paints has been able to maintain a consistent level of profitability relative to its assets during this period. The slight fluctuations may be attributed to various factors such as changes in market conditions, pricing strategies, or operational efficiency.

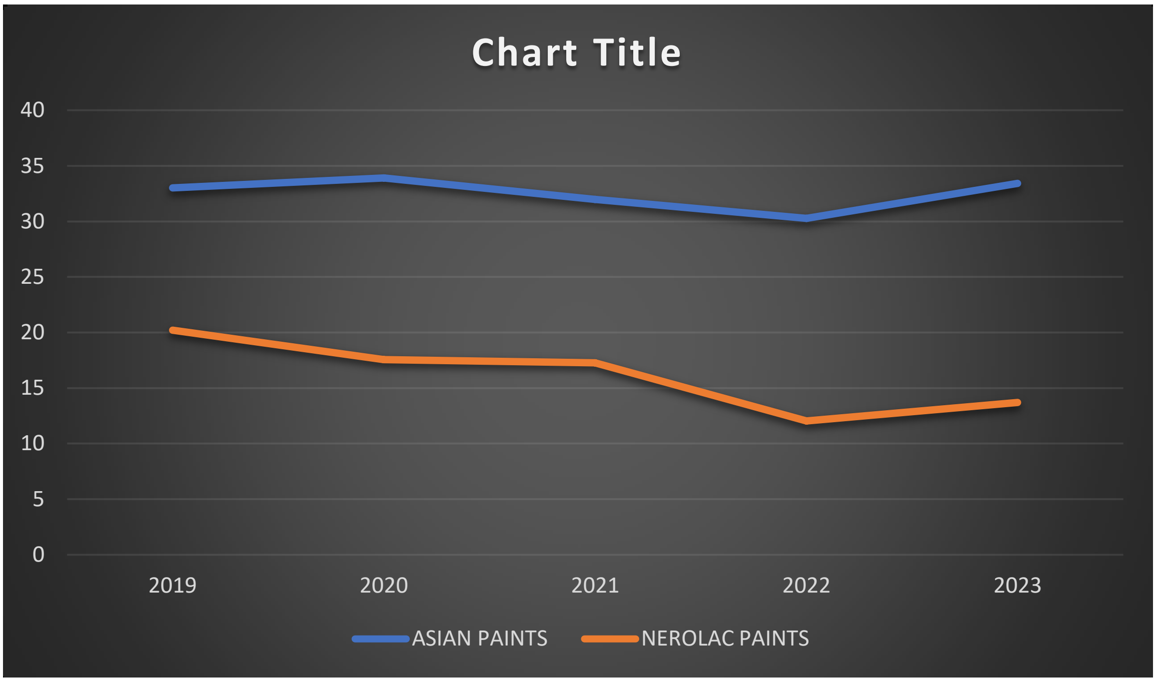
Asian Paints: Asian Paints, on the other hand, has consistently maintained a higher ROA compared to Nerolac Paints, ranging from 15.58% to 19.53%. This indicates that Asian Paints has been more efficient in generating profits from its assets. The higher ROA suggests that Asian Paints has been able to effectively manage its assets to generate higher returns, possibly through effective cost management, pricing strategies, or revenue generation.

Overall, both companies have demonstrated reasonable profitability relative to their asset base. However, Asian Paints' higher and more consistent ROA indicates stronger profitability and efficiency in asset utilization compared to Nerolac Paints. This analysis can help investors and stakeholders understand the financial performance and efficiency of these companies in utilizing their assets to generate profits.

RETURN ON CAPITAL EMPLOYED: Return on Capital Employed (ROCE) is a financial metric that evaluates a company's profitability and efficiency in using its capital to generate earnings. It is calculated by dividing Earnings Before Interest and Taxes (EBIT) by the Capital Employed and then multiplying by 100 to express it as a percentage. The formula for ROCE is:

ROCE = (EBIT / Capital Employed) * 100

Where:
- EBIT is the company's earnings before interest and taxes,
- Capital Employed is the total capital invested in the company, including debt and equity.



INTERPRETATION

The Return on Capital Employed (ROCE) figures for Nerolac Paints and Asian Paints over the past five years reveal interesting trends in their capital efficiency and profitability.

Nerolac Paints' ROCE has shown a gradual increase over the period, indicating improved efficiency in generating returns from its capital investments. The company's ability to enhance its ROCE suggests effective management of its capital and operational efficiency.

In contrast, Asian Paints has maintained a consistently high ROCE, reflecting its strong profitability and efficient use of capital. The company's ability to sustain a high ROCE indicates a competitive advantage and effective capital allocation strategies.

The difference in ROCE between the two companies may be attributed to various factors such as differences in business models, market conditions, and management strategies. Overall, both companies have demonstrated the ability to generate returns from their capital investments, albeit at different levels of efficiency.

FINDINGS :

1. Profitability: Asian Paints consistently outperformed Nerolac Paints in terms of profitability ratios capital employed (ROCE), indicating better management of expenses and higher profitability.
2. Efficiency: Nerolac Paints showed improvements in efficiency ratios like inventory turnover and asset turnover over the years, indicating better management of inventory and assets.
3. Liquidity: Both companies maintained healthy liquidity ratios, with Asian Paints having a slightly higher current ratio and quick ratio compared to Nerolac Paints, suggesting better short-term liquidity management.
4. Debt Management: Asian Paints exhibited better debt management ratios, such as debt to equity ratio and interest coverage ratio, indicating lower financial risk compared to Nerolac Paints.
5. Growth: Both companies showed consistent growth in revenue over the years, with Asian Paints showing a slightly higher growth rate, reflecting its stronger market position and brand presence.
6. Stability: Nerolac Paints demonstrated stability in its financial ratios, with moderate fluctuations, while Asian Paints showed more consistent and stronger financial performance.
7. Investor Return: Asian Paints provided higher returns to investors, as indicated by its higher dividend yield and earnings per share compared to Nerolac Paints.
8. Market Position: Asian Paints maintained a dominant market position, as reflected in its higher market capitalization and price-earnings ratio compared to Nerolac Paints.

CONCLUSION :

In conclusion, the ratio analysis of Asian Paints and Nerolac Paints reveals that while both companies have strengths in different areas, Asian Paints emerges as the stronger performer overall. Asian Paints demonstrated superior profitability, efficiency, and financial management compared to Nerolac Paints. Its consistent growth, strong market position, and better returns to investors highlight its robust performance in the paint industry. On the other hand, Nerolac Paints showed improvements in efficiency and stability over the years but lags behind Asian Paints in terms of profitability and overall financial performance.

LIMITATIONS :

- Only 2 companies were taken for the comparative study, we could have taken more than 2 companies for better results
- Due to time constraint only 2 companies were taken.
- Data of the company was very small which was from 2018-2023 which could have been little big in size for better results.
- Data was collected from the online source because we can’t get the data from company itself.
- Apart from ratio analysis many more tools could have been used like Variances, Dupont analysis and ANNOVA, etc. for better results

SUGGESTIONS FOR FURTHER RESEARCH :

Suggestions for my further research are as follows –

- We can take more than 2 companies for better research and better result.
- We can take data size a little big for further research and better result.
- We can use many tools for comparative study apart from Ratio analysis like ANNOVA, Dupont analysis,
- Variance, etc.

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