LIQUIDITY ANALYSIS OF SELECTED COMPANIES IN INDIAN PAINT INDUSTRY

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ABSTRACT

This paper focuses on the liquidity position of selected companies in Indian paint industry. An attempt has been made to understand the abilities of selected companies to pay short term debt obligations, how does these differ and get affected over a sufficient period of time. The major stress has been laid down on studying liquidity ratios of selected top 6 paint companies in India. A comparative external analysis of these companies has been done for the period of 13 years. This analysis helps these companies to identify the strategic financial moves while establishing their standard goals for the long run. The present study has made use of various financial and accounting ratios which have been tested with the help of appropriate statistical tools like averages, standard deviation and coefficient of variation. These ratios have been further examined with the help of Repeated measure ANOVA. The paper has concluded that there is significant difference between related population means of current ratios and quick ratios of the company over the years. However the liquidity position of the paint companies is quite satisfactory over the period under study.

Keyword: Indian Paint Industry, Liquidity Analysis, F test and ANOVA

I. INTRODUCTION

India is the second largest paint market with an annual demand of over two million tonnes, again second only to China. The Indian paint industry has overcome a long way from the days when paints were considered a luxury item. Today the awareness level on preventing corrosion through paints is relatively high, a development that should be a huge boost to the paint industry. The industry has witnessed increased activity in the industrial variety of paints with entry on MNC's in auto, consumer durables, etc. India's strong economic growth has propelled the paint industry to double-digit growth over the past few years and has made it Asia Pacific's fastest growing paint market. Despite fast growth, India's per capita paint consumption is still abysmally low at 2kg/year. Due to increased Government funding for infrastructure, demand for paints both in industrial and decorative segment is set to rise, thereby rendering Indian paint industry to be poised for further growth. Thus the Indian paint industry is in its growth phase and is expected to grow at a rate faster than that of GDP. The future prospects of the industry are strong. The Indian Paint industry has achieved growth of around 15 per cent to 16 per cent per year in the past five years, which is 1.5 times India's Gross Domestic Product (GDP) growth. The Indian paint industry saw a significant change in reduction of excise duties, custom duties which led to reduction in the prices of raw materials. Also, there was a restriction on increasing the capacity of

plant which was removed afterwards by the government. The sector experienced a lot of capacity expansion, joint ventures with foreign companies, foreign acquisitions and investments in technology in the last decade. Thus, India has become a very viable option for establishment of paint manufacturing plants. Hence, there's a huge opportunity in the country and the industry is expected to continue with double-digit growth from 2015 to 2020. Therefore, paint industry has been selected for the study. Further, to meet the needs of growing population of India, production of paint products should be increased. To increase the production of paint products, a clear and elaborate operational efficiency is to be made to encourage entrepreneurship.

II. NEED FOR THE STUDY

A study of liquidity is of major importance to both the internal and the external analysts because of its close relationship with day-to-day operations of a business. Liquidity management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. Liquidity ratios measure the ability of a firm to meet its short-term obligations. The ability to pay short-term debt is of concern to anyone who interacts with the company. If a company cannot maintain a short-term debt paying ability, it will not be able to maintain a long term debt-paying ability, nor will it be able to satisfy its stockholders. The liquidity ratios look at aspects of the company's assets and their relationship to current liabilities

III. OBJECTIVES OF THE STUDY

- To know the liquidity position of the selected leading Indian Pharmaceutical Companies.
- To determine the overall liquidity position of Indian pharmaceutical industry

IV. RESEARCH METHODOLOGY

There are basically two types of data i.e. primary data and secondary data. Primary data are those data which are collected for the first time, to meet the objective of research only. Secondary data is data which has been already collected and used for any other purpose and can be used for this research also. This study is based on financial statements of companies, which is secondary data.

V. SAMPLE DESIGN

The convenient sampling technique is used for the study. The selection of sample companies is on the basis of consumer preference and their position in the market. Following is the list of 6 paint companies which are chosen from top ten paint companies in India as sample size for the study.

1. Akzo Nobel India Ltd
2. Asian Paints Ltd
3. Berger Paints India Ltd
4. Jenson & Nicholson (India) Ltd
5. Kansai Nerolac Paints Ltd
6. Shalimar Paints Ltd

VI. PERIOD OF STUDY

The study covers a period of 13 years covering a period from 2000-01 to 2012-13. It is also decided by taking into consideration of the availability of data.

VII. SOURCE OF DATA

This study is based mainly on secondary data. The data relating to the study is obtained from CMIE (Centre for Monitoring Indian Economy) date base, namely PROWESS. In addition, the annual reports of the sample companies, Magazines, Journals were also referred for finalizing the methodology for the study.

VIII. DATA ANALYSIS

For the purpose of this study, the ratios namely, Liquidity ratios, Activity ratios, The role of statistical tools is important in analyzing the data and drawing inferences there from. In order to derive the results from the information collected through secondary data, various statistical tools such as Mean, Standard Deviation, Coefficient of Variance, Compound Average Annual Growth Rate, Average Annual Growth Rate, ANOVA, and Trend Analysis has been accomplished through EXCEL and SPSS software.

IX. HYPOTHESES FOR LIQUIDITY ANALYSIS

- T here is no significant difference in the mean percentage of liquidity ratios between the companies and years.
- There is no significant difference in the industry mean percentage of liquidity ratios between the companies and years.

X. LIMITATIONS OF THE STUDY

- The analysis is based on annual reports of the company. So it is subjected to the limitations of secondary data.
- Ratio analysis is the important tool used in this project. So it is subjected to the limitations of ratio analysis.
- The study is only for six particular companies, so general conclusions about the paint processing as a whole cannot be made.
- The study is restricted for a period of 13 years, from 2000-2001 to 2012- 2013.

XI. ANALYSIS OF LIQUIDITY

(a) Current Ratio

Table 1 show the average of current ratio among the selected companies in Indian paint industry throughout the study period. The highest average is 1.46 per cent for Berger Paints India Ltd followed by Kansai Nerolac Paints Ltd (1.45 per cent), Shalimar Paints Ltd (1.13 per cent), Asian Paints Ltd (0.88 per cent), Akzo Nobel India Ltd (0.76 per cent) and Jenson & Nicholson (India) Ltd (0.15 per cent). Analysis of CV value of shows that Shalimar Paints Ltd has consistent current ratio, Berger Paints India Ltd and Kansai Nerolac Paints Ltd have fluctuating trend, Akzo Nobel India Ltd and Asian Paints Ltd have highly fluctuating trend and Jenson & Nicholson (India) Ltd has erratically fluctuating trend of current ratio during the study period. The compound annual growth rate of current ratio Asian Paints Ltd, Berger Paints India Ltd and Kansai Nerolac

Paints Ltd are positive under study. The analysis of t values reveals that the mean current ratio is significantly different from the industry in all the companies except Asian Paints Ltd.

Analysis of variance has been applied to test the framed hypothesis and the results are presented in Table 2. The calculated value of F (106.56) is greater than the table value of F(2.53) at 5 per cent level of significance between the companies. Thus, the hypothesis is rejected. The calculated value of F (1.67) is lower than the table value of F (1.92) between the years. So, the null hypothesis is accepted and there are no significant differences between the current ratios of the selected companies between the years. The analysis of current ratio of Berger Paints India Ltd shows better performance among the selected companies. This is due to very high fluctuations of cash and bank balance of the company during the study period.

(b) Quick Ratio

From Table 1, it is clear that the highest mean value of the quick ratio is 0.78 per cent for Kansai Nerolac Paint Ltd followed by Berger Paints India Ltd (0.66 per cent), Shalimar Paints Ltd (0.64 per cent), Akzo Nobel India Ltd (0.45 per cent) and Asian Paints Ltd (0.36 per cent) and Jenson & Nicholson (Inida) Ltd (0.09 per cent). The analysis of CV values reveals that all the selected companies have high fluctuating trend during the study period. The compound annual growth rate is negative in four out of six companies. The analysis of t value reveals that the mean liquid ratio is significantly different from the industry mean in the case of all the companies except Akzo Nobel India Ltd.

It is clear from Table 2 that the calculated value of F (81.07) is greater than the table value of F (2.53) at 5 per cent level of significance between the companies. Thus, the hypothesis is rejected. The calculated value of F (1.56) is lower than the table value of F (1.92) between the years. So the null hypothesis is accepted and it is concluded that there are no significant differences between the liquid ratios of the selected companies between the years. From the analysis of quick ratio Kansai Nerolac Paints Ltd has performed better with regard to quick ratio during the study period.

(c) Absolute Liquid Ratio

The absolute liquid ratios of the selected companies are presented Table 1. The table reveals that the absolute liquid ratios of the companies show a fluctuating trend throughout the study period. The highest mean is 0.18 per cent for Berger Paints India Ltd followed by 0.10 per cent for Akzo Nobel India Ltd and Kansai Nerolac Paint Ltd, 0.09 per cent for Shalimar Paints Ltd, 0.04 per cent for Asian Paints Ltd and 0.03 per cent for Jenson & Nicholson (India) Ltd. The CV value of this ratio shows that all the selected companies have erratically fluctuating trend of absolute liquid ratio except Kansai Nerolac Paints Ltd and Shalimar Paints has highly fluctuating trend during the study period. The compound annual growth rate of absolute liquid ratio is positive in the case of Asian Paints Ltd, Berger Paints India Ltd and Jenson & Nicholson (India) Ltd. The analysis of t values describes that the mean absolute liquid ratio of Asian Paints Ltd, Berger Paints India Ltd and Jenson & Nicholson (India) Ltd are significantly different from the industry.

It is evident from Table 2 that the absolute liquid ratio between the companies is significant because the calculated value of F (14.57) is more than the critical value of F (2.53) at 5 per cent level of significance. Thus, the null hypothesis is rejected. The absolute liquid ratio between the years is not significant because the calculated value of F (1.10) is less than the critical value of F (1.92) at 5 per cent level of significance. Thus the null hypothesis is accepted. From the analysis of absolute liquid ratio of Berger Paints India Ltd, Akzo Nobel

India Ltd and Kansai Nerolac Paint Ltd of current liabilities are sufficient for satisfactory liquid position of the company during the study period.

XII. FINDINGS

The analysis of liquidity ratio indicated that majority of the selected companies registered a negative compound annual growth rate in the liquid ratio which showed poor liquidity position of the selected companies during the study period. The average current ratio was the highest in Berger Paints India Ltd, followed by Kansai Nerolac Paint Ltd, Shalimar Paints Ltd, Asian Paints Ltd, Akzo Nobel India Ltd and Jenson & Nicholson (India) Ltd. All the selected companies of the Indian paint industry have not maintained the standard ratio of 2:1. Overall, it is noted that comparatively Berger paints India Ltd, Kansai Nerolac Paints India Ltd and Shalimar Paints Ltd showed a good sign of liquidity than Asian Paints Ltd, Akzo Nobel India Ltd and Jenson & Nicholson (India) Ltd. The average quick ratio was the highest in Kansai Nerolace Paints Ltd, followed by Berger Paints India Ltd, Shalimar Paints Ltd, Akzo Nobel (India) Ltd, Asian Paints Ltd and Jenson & Nicholson (India) Ltd. All the selected companies of the Indian paint industry are not maintaining the standard ratio of 1:1. Further, the average absolute liquid ratio for all the companies is below the standard norm of 0.50:1 during the study period.

The analysis of liquidity ratio indicated that majority of the selected companies registered a negative compound annual growth rate during the study period. The analysis of variance result indicates that there is no significant difference between the years during the study period for current ratio, quick ratio and absolute liquid ratio. This was obviously due to an increase in the inventories of majority of the selected companies. The analysis of variance also showed that there were significant differences in the liquidity ratio between the companies during the study period.

XIII. SUGGESTIONS

Majority of the selected companies showed poor liquidity position during the study period. This was obviously due to the increase in the inventories of majority of the selected companies. Therefore, it is suggested that the problem of excess investments in inventory in the selected companies can largely be tackled through improved co-ordination in the functioning of some strategic departments such as purchases, production, marketing and finance.

XIV. CONCLUSION

On the basis of critical evaluation of financial performance of sample companies, it is observed that the liquidity position is due to inefficient in liquidity management and high cost of production, higher labor cost and inefficient auditing of company’s business activities. To sum up, the adoption of above said suggestive measures will certainly help the selected units to improve their financial performances. Thus, the growth and all round development of this industry has a direct bearing on the improvement of India's economy.

XV. REFERENCES:

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Appendix

Table 1

Statistical values of ratios relating to Liquidity indicators

(For the period from 2000-2001 to 2012-2013)

Particulars	Statistics	Akzo Nobel India Ltd	Asian Paints Ltd	Berger Paints India Ltd	Jenson & Nicholson (India) Ltd	Kansai Nerolac Paints Ltd	Shalimar Paints Ltd	Whole Industry
Current Ratio	Mean	0.76	0.88	1.46	0.15	1.45	1.13	0.92
	CV	0.26	0.28	0.14	0.86	0.15	0.08	0.17
	CAGR	-6.11	0.42	1.36	-8.75	0.16	-1.46	-0.94
	t value	-3.98	-1.17	8.63	-17.78	7.85	5.73	
Quick Ratio	Mean	0.45	0.36	0.66	0.09	0.78	0.64	0.45
	CV	0.48	0.58	0.19	1.00	0.17	0.06	0.20
	CAGR	-9.39	0.21	1.94	-8.22	-0.52	-1.11	-2.15
	t value	-0.07	-4.62	5.24	-16.99	6.99	8.09	
Absolute Liquid Ratio	Mean	0.10	0.04	0.18	0.03	0.10	0.09	0.08
	CV	1.40	0.50	0.50	1.00	0.40	0.33	0.37
	CAGR	-15.22	5.95	4.05	8.52	-0.79	-9.24	-3.84
	t value	0.81	-3.51	4.55	-4.39	1.19	1.44	

*** Significant at 0.01 level**

Source: Computed from the annual reports of the respective companies

Table 2

ANOVA results – ratio relating to liquidity – comparison

S. No.	Liquidity Ratio	Between the Companies		Between the Years	
		F Ratio	H_0	F Ratio	H_0
1	Current Ratio	106.59	Rejected	1.67	Accepted
2	Quick Ratio	81.07	Rejected	1.56	Accepted
3	Absolute Liquid Ratio	14.57	Rejected	1.10	Accepted

Critical Value 'F' at 0.05 level (between company) = 2.53;

Critical Value 'F' at 0.05 level (between year) = 1.92

Source: Computed