

**PERFORMANCE EVALUATION OF SELECT PAINT INDUSTRIES IN INDIA****S.ARAVINDANABHAN**

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**ABSTRACT:**

Finance is regarded as the life blood of a business. The basic objective of every firm is to maximize its profit. Profit is the engine that drives the business enterprise. Without profit, no firm can sustain in the competitive world. Profit is an accounting concept, which is expressed as income over expenditure. Analyzing the profitability position is very important to evaluate the performance of a company. Several tools like Ratio Analysis, Comparative and Common size statement and other tools are available for gauging the performance of a company.

The present study attempts to analyze the profitability position of the select paint industries in India. In this research, top four paint industries have been taken for analysis and used purposive sampling techniques. In this connection the researcher using Ratio Analysis. In addition, statistical techniques like Mean, Standard deviation and Coefficient of variation have used extensively to sensibly interpret the data.

**Key words:** Paint industries, Profitability, Efficiency and Ratio Analysis.

**Introduction:**

The Organization is deemed to be financially sound if it is in a position to carry on its business smoothly. Normally, the main objective of any business is to earn profit. Profit determines the financial position, liquidity and solvency of the company. It serves as a yardstick for judging the competence and efficiency of the management. Profit planning is, therefore, a fundamental part of the overall management functions and is an important part of the total budgeting process.

The Indian paint industry has recently completed 100 years of manufacturing. Manufacturing of Indian paints started around 1902. The Indian paint industry has seen a gradual shift in the preferences of people from the traditional white wash to higher quality paints like emulsions and enamel paints. Growing popularity of new variants providing improved finishing and textures, increasing per capita income of people and efforts on the part of manufacturers to introduce improved versions like eco-friendly, odour free and dust and water-resistant paints, have propelled the growth of the paint market in India. Efforts on the part of the manufacturers to introduce innovative technologies in the paint market have led to a growth in demand for paints in India. Paint manufacturers are giving due attention to consumer's colour preferences. The market is witnessing introduction of breakthrough technologies to improve the paint quality.

The Indian Paint Industry is only segment of the Indian chemical industry that has been sharing a consistent double-digit growth rate in the last five years. The growth rates recorded over the last few years have been extremely encountered with upward trend in paint demand and consumption.

### **Objectives of the study:**

The core objective of this study is to evaluate the profitability position of paint industries in India.

- To analyze the profitability position of select paint industries in India.
- To offer suitable suggestions on the based on the finding of the study.

### **Research Design and Methodology:**

The study is based on secondary data. The data required for the study has been collected from annual reports, books and websites. In this study, Asian paints, Berger paints, Nerolac paints and Shalimar paints have been taken for analysis of performance evaluation.

### **Period of study:**

This study covers a period of five years from 2014 to 2018.

### **Plan of Analysis:**

The researcher has used the following tools for analyzing the profitability performance of select paint industries in India. Operating Profit Ratio, Gross Profit Ratio, Net Profit Ratio, Cash Profit Ratio, Return on Assets and Return on Equity. Further a comprehensive analysis is carried by applying statistical techniques viz. mean, standard deviation (STDEV) and coefficient of variation (C.V).

### **Measurement of Profitability Ratios:**

Profitability means the earning capacity of a firm. There are two types of profitability ratios: first general profitability or profit margin ratios and second rate of return ratios. The general profitability ratios show the relationship between profit and net sales. Since profit can be measured at different levels, there are different types of profit ratios. The most popular profit

ratios are Operating Profit Ratio, Gross Profit Ratio, Net Profit Ratio and Cash Profit Ratio. Rate of return ratios represent the relationship between net profit and investment. The most popular rate of return measures are Return on Assets, Return on Equity, etc. The present study analyzes the profitability of the selected paint industries using the following profitability measures.

### Analysis and Interpretation:

#### Operating Profit Ratio:

Operating Profit Ratio indicates how much profit a firm earns after meeting its variable cost of production. It is also expressed as percentage of sales and then shows efficiency of a company in controlling cost associated with business operations.

It is understood from Table 1 that among the selected paint industries, Asian paints has highest operating profit ratio 28.36 in the year 2017 and least of 15.71 in the year 2014. Berger paints has highest operating profit ratio 24.25 in the year 2017 and least of 11.14 in the year 2014. Nerolac paints have highest operating profit ratio 27.68 in the year 2017 and least of 11.54 in the year 2014. And Shalimar paints have highest operating profit ratio 7.73 in the year 2017 and least of 1.88 in the year 2016.

**TABLE 1 – STATEMENT SHOWING OPERATING PROFIT RATIO**

Year	Asian Paints	Berger Paints	Nerolac Paints	Shalimar Paints
March 2014	15.71	11.14	11.54	7.17
March 2015	15.76	11.81	12.57	3.01
March 2016	27.39	23.60	25.54	1.88
March 2017	28.36	24.25	27.68	7.73
March 2018	21.05	17.67	19.62	3.90
<b>Mean</b>	<b>21.65</b>	<b>17.69</b>	<b>19.39</b>	<b>4.74</b>
<b>STDEV</b>	<b>6.09</b>	<b>6.23</b>	<b>7.33</b>	<b>2.58</b>
<b>C.V</b>	<b>28.12</b>	<b>35.23</b>	<b>37.79</b>	<b>54.55</b>

#### Gross Profit Ratio:

Gross Profit Ratio indicates the relationship between gross profit and net sales. Gross profit is the excess of net sales over the cost of goods sold. It is a tool to measure the operational Performance of a firm. Higher the gross profit ratio is a sign of good efficiency of management.

It is understood from Table 2 that among the selected paint industries, Asian paints has highest gross profit ratio 26.37 in the year 2017 and least of 13.78 in the year 2014. Berger paints has highest gross profit ratio 22.11 in the year 2017 and least of 9.32 in the year 2014. Nerolac paints have highest gross profit ratio 26.15 in the year 2017 and least of 9.48 in the year 2014. And Shalimar paints have highest gross profit ratio 6.48 in the year 2017 and least of 0.78 in the year 2016.

**TABLE 2 – STATEMENT SHOWING GROSS PROFIT RATIO**

Year	Asian Paints	Berger Paints	Nerolac Paints	Shalimar Paints
March 2014	13.78	9.32	9.48	6.45
March 2015	13.88	9.67	10.67	2.25
March 2016	25.65	21.49	23.94	0.78
March 2017	26.37	22.11	26.15	6.48
March 2018	18.97	15.32	18.01	2.75
<b>Mean</b>	<b>19.73</b>	<b>15.58</b>	<b>17.65</b>	<b>3.74</b>
<b>STDEV</b>	<b>6.11</b>	<b>6.16</b>	<b>7.54</b>	<b>2.59</b>
<b>C.V</b>	<b>30.97</b>	<b>39.53</b>	<b>42.72</b>	<b>69.19</b>

**Net Profit Ratio:**

Net Profit Ratio indicates the relationship between net profit after tax and net sales. This ratio indicates the efficiency of the management in terms of production, administration, selling, financing and tax management of the firm and it indicates the firm's capacity to face adverse economic conditions such as price competition, low demand etc. Higher the net profit ratio, better the profitability position of a firm.

It is understood from Table 3 that among the selected paint industries, Asian paints has highest net profit ratio 11.81 in the year 2018 and least of 9.58 in the year 2014. Berger paints has highest net profit ratio 9.37 in the year 2017 and least of 6.12 in the year 2015. Nerolac paints have highest net profit ratio 21.08 in the year 2016 and least of 6.53 in the year 2014. And Shalimar paints have highest net profit ratio 2.07 in the year 2014 and least of -2.77 in the year 2018.

**TABLE 3 – STATEMENT SHOWING NET PROFIT RATIO**

Year	Asian Paints	Berger Paints	Nerolac Paints	Shalimar Paints
March 2014	9.58	6.44	6.53	2.07
March 2015	9.83	6.12	7.64	-0.57
March 2016	11.01	7.91	21.08	-2.44
March 2017	11.50	9.37	11.09	1.3
March 2018	11.81	8.72	10.69	-2.77
<b>Mean</b>	<b>10.75</b>	<b>7.71</b>	<b>11.41</b>	<b>-0.48</b>
<b>STDEV</b>	<b>1.00</b>	<b>1.41</b>	<b>5.75</b>	<b>2.17</b>
<b>C.V</b>	<b>9.27</b>	<b>18.29</b>	<b>50.39</b>	<b>-449.36</b>

**Cash Profit Ratio:**

Cash Profit Ratio indicates the relationship between cash profit and net sales. The net profit of the firm is affected by the non-cash expenses i.e., depreciation and amortization.

Therefore, to calculate net cash profit depreciation and amortization has to be added back to net profit. Cash profit ratio measures the operating performance of the company.

It is understood from Table 4 that among the selected paint industries, Asian paints has highest cash profit ratio 23.77 in the year 2017 and least of 11.81 in the year 2014. Berger paints has highest cash profit ratio 20.25 in the year 2017 and least of 8.19 in the year 2014 and 2015. Nerolac paints have highest cash profit ratio 23.75 in the year 2017 and least of 8.58 in the year 2014. And Shalimar paints have highest cash profit ratio 3.20 in the year 2014 and least of -1.33 in the year 2016.

**TABLE 4 – STATEMENT SHOWING CASH PROFIT RATIO**

Year	Asian Paints	Berger Paints	Nerolac Paints	Shalimar Paints
March 2014	11.81	8.19	8.58	3.20
March 2015	11.98	8.19	9.51	0.18
March 2016	22.84	19.58	21.89	-1.33
March 2017	23.77	20.25	23.75	2.55
March 2018	15.90	13.34	15.19	-0.67
<b>Mean</b>	<b>17.26</b>	<b>13.91</b>	<b>15.78</b>	<b>0.79</b>
<b>STDEV</b>	<b>5.77</b>	<b>5.88</b>	<b>6.93</b>	<b>1.99</b>
<b>C.V</b>	<b>33.40</b>	<b>42.24</b>	<b>43.93</b>	<b>253.69</b>

#### **Return on Assets:**

Return on Assets is the relationship between net profit and total assets. It indicates how much profit is generated on total assets. It is an overall measure of profitability of a firm. It shows how the management is efficient to utilize its assets to generate more profits. Higher the returns on assets better the efficient management in utilizing its total assets.

It is understood from Table 5 that among the selected paint industries, Asian paints has highest return on assets 91.10 in the year 2018 and least of 42.11 in the year 2014. Berger paints has highest return on assets 32.35 in the year 2014 and least of 18.18 in the year 2015. Nerolac paints have highest return on assets 264.54 in the year 2014 and least of 29.72 in the year 2015. And Shalimar paints have highest return on assets 97.03 in the year 2018 and least of 32.55 in the year 2016.

**TABLE 5 – STATEMENT SHOWING RETURN ON ASSETS**

Year	Asian Paints	Berger Paints	Nerolac Paints	Shalimar Paints
March 2014	42.11	32.35	264.54	39.63
March 2015	49.44	18.18	29.72	38.73
March 2016	72.02	22.53	46.68	32.55
March 2017	83.19	19.58	52.51	34.86

March 2018	91.10	22.60	58.43	97.03
<b>Mean</b>	<b>67.57</b>	<b>23.05</b>	<b>90.38</b>	<b>48.56</b>
<b>STDEV</b>	<b>21.18</b>	<b>5.54</b>	<b>97.95</b>	<b>27.25</b>
<b>C.V</b>	<b>31.34</b>	<b>24.03</b>	<b>108.38</b>	<b>56.11</b>

### Return on Equity:

Return on Equity is the relationship between net profit and shareholders' funds. It measures the profitability that calculates how much profit a firm generates with each rupee of shareholders' funds. Higher the return on equity better is the efficiency of the management.

It is understood from Table 6 that among the selected paint industries, Asian paints has highest return on equity 30.17 in the year 2014 and least of 24.24 in the year 2018. Berger paints has highest return on equity 24.90 in the year 2017 and least of 20.99 in the year 2018. Nerolac paints have highest return on equity 35.94 in the year 2016 and least of 14.58 in the year 2014. And Shalimar paints have highest return on equity 15.26 in the year 2014 and least of -17.99 in the year 2016.

**TABLE 6 – STATEMENT SHOWING RETURN ON EQUITY**

<b>Year</b>	<b>Asian Paints</b>	<b>Berger Paints</b>	<b>Nerolac Paints</b>	<b>Shalimar Paints</b>
March 2014	30.17	22.26	14.58	15.26
March 2015	29.41	21.01	17.11	-3.96
March 2016	27.62	23.72	35.94	-17.99
March 2017	25.50	24.90	18.12	8.30
March 2018	24.24	20.99	16.40	-11.93
<b>Mean</b>	<b>27.39</b>	<b>22.58</b>	<b>20.43</b>	<b>-2.06</b>
<b>STDEV</b>	<b>2.52</b>	<b>1.72</b>	<b>8.77</b>	<b>13.80</b>
<b>C.V</b>	<b>9.19</b>	<b>7.60</b>	<b>42.91</b>	<b>-668.76</b>

### Conclusion:

The study attempts to analyse the profitability position and efficiency of select paint industries in India in terms of operating profit ratio, gross profit ratio, net profit ratio, cash profit ratio, return on assets and return on equity. All the paint industries except Shalimar paint industry had earned profits during the study period. Shalimar paints had not generated net profit in 2015, 2016 and 2018. And also cash profit ratio and return on equity was in a negative position during the above period. Finally, it can be concluded that the overall profitability position of select paint industries except Shalimar paints are good and satisfactory for the study period.

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