



"THE IMPACT OF THE COVID-19 PANDEMIC ON THE LIQUIDITY AND PROFITABILITY OF COMPANIES IN THE PAINT SECTOR OF THE BOMBAY STOCK EXCHANGE"

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ABSTRACT

This research investigates the impact of the COVID-19 pandemic on the liquidity and profitability of the companies registered on the Bombay Stock Exchange (BSE) under the paint sector. The pandemic has brought unprecedented challenges to the global economy, including the paint sector, which has experienced a decline in demand and supply chain disruptions. To analyse the impact of the pandemic on the paint sector, financial data from the financial statements of seven companies registered on the BSE under the paint sector from 2015 to 2022 were analysed. The financial data were compared for four years before and four years after the pandemic using the paired sample t-test to test the significance of the differences in financial variables between the two time periods. The results show that there was a significant decrease in the current ratio and an increase in debt-to-equity and debtors' turnover ratio of the companies after the pandemic, indicating a decline in liquidity. However, there was no significant impact of the pandemic on the profitability of the companies, as measured by the gross profit ratio, net profit ratio, return on net worth, and return on assets.

KEYWORDS : Liquidity, Profitability, Paint Sector, COVID-19

INTRODUCTION:

The COVID-19 pandemic has brought significant disruptions to the global economy, with many industries experiencing unprecedented challenges. The paint sector of the Bombay Stock Exchange (BSE) has been one such industry that has been affected by the pandemic. As a result of the pandemic, companies in this sector have faced a decline in demand and supply chain disruptions, which have impacted their liquidity and profitability. This research aims to investigate the impact of the COVID-19 pandemic on the paint sector of the BSE, specifically focusing on the liquidity and profitability of companies registered on the BSE under the paint sector. The research will utilize financial data from the financial statements of the seven companies registered on the BSE under the paint sector from 2015 to 2022. The findings of this research will provide valuable insights into the impact of the pandemic on the paint sector of the BSE and the financial performance of companies in this sector. The research will also contribute to the existing literature on the impact of the pandemic on the liquidity and profitability of companies. The insights gained from this research will be useful for companies in the paint sector and other industries that have been affected by the pandemic, as they look to navigate through the current economic uncertainty and implement effective strategies to maintain their financial performance.

Review of Literature:

The COVID-19 pandemic has brought significant disruptions to the global economy, with many companies struggling to maintain their liquidity and profitability in the face of economic uncertainty and decreased demand for goods and services. In a study of the impact of the COVID-19 pandemic on the liquidity of listed firms in China, (Liu et al., 2020) found that the pandemic led to a significant decrease in the liquidity of listed firms, as measured by the bid-ask spread and turnover ratio. The authors attributed this decline to a decrease in market depth, information asymmetry, and market volatility. Similarly, a study by (Norouzi et al., 2022) on the impact of the pandemic on the liquidity of Iranian firms found that the pandemic led to a significant decline in liquidity, as measured by the bid-ask spread, trading volume, and market depth. The authors suggested that this decline was due to an increase in uncertainty, information asymmetry,

and risk aversion among investors. Regarding profitability, a study by (Chen et al., 2020) examined the impact of the pandemic on the profitability of Chinese firms and found that the pandemic led to a significant decline in profitability, as measured by the return on assets and return on equity.

The authors suggested that this decline was due to a decrease in demand and supply chain disruptions. In another study, (Borges & Tavares, 2020) examined the impact of the pandemic on the profitability of Portuguese firms and found that the pandemic led to a significant decline in profitability, as measured by the gross profit margin and net profit margin. The authors attributed this decline to a decrease in sales, production, and supply chain disruptions. COVID-19 pandemic has had a significant negative impact on the liquidity and profitability of companies across different sectors and regions (Amnim et al., 2021; Karim & Shetu, 2023; Nguyen et al., 2021).

Research Methodology:

The study aims to investigate the impact of the COVID-19 pandemic on the paint sector of the Bombay Stock Exchange. The findings of the study can help the stakeholders in the paint sector to make informed decisions regarding their business operations during the pandemic. The research design chosen for this study is quasi-experimental design as it involves the comparison of the financial data of paint companies on the BSE before and after the COVID-19 pandemic. The population for this study is the paint sector of the Bombay Stock Exchange. The sample consists of the seven companies registered on the BSE under the paint sector. These companies were selected using purposive sampling. The financial data for the seven companies from 2015 to 2022 were collected from their financial statements. Four years before the pandemic (2015-2018) and four years after the pandemic (2019-2022) were chosen as the time frame to observe the impact of the pandemic. The paired sample t-test is used to test the significance of the difference between the financial data before and after the pandemic.

RESULT:

Table 1 Paired Samples Test of Pre-Pandemic Crises and Post Pandemic Crises of 2020

Pairs of Financial Variables	Mean	SD	t	df	Sig.
Pre-Quick Ratio - Post Quick Ratio	-0.24429	0.777912	-1.659	27	0.109
Pre-Current Ratio - Post Current Ratio	-0.50893	1.01244	-2.66	27	0.013
Pre-Debt to Equity - Post Debt to Equity	0.24899	0.63549	2.073	27	0.048
Pre-Debtors Turnover - Post Debtors Turnover	0.69643	1.97475	1.866	27	0.073
Pre Gross-Profit Ratio - Post Gross Profit Ratio	-2.00929	8.56168	-1.242	27	0.225
Pre-Net Profit Ratio - Post Net Profit Ratio	-0.38393	8.26389	-0.246	27	0.808
Pre-Return on Net Worth - Post Return on Net Worth	4.11429	22.9071	0.95	27	0.350
Pre-Return on Assets - Post Return on Assets	0.63714	8.88799	0.379	27	0.707

Table 1 presents the results of the paired sample t-test conducted to examine the impact of the COVID-19 pandemic on the financial ratios of seven companies in the paint sector of the Bombay Stock Exchange. The data used in the test were collected from the financial statements of the companies for four years before and four years after the pandemic. The paired sample t-test compares the means and standard deviations of the financial ratios before and after the pandemic, and tests whether the differences between these means are statistically significant. The results of the paired sample t-test are presented in the table in terms of means, standard deviations, t-values, degrees of freedom, and significance levels. Looking at the table, it can be observed that the means of four financial ratios, i.e., Pre-Current Ratio - Post Current Ratio, Pre-Debt to Equity - Post Debt to Equity, Pre-Debtors Turnover - Post Debtors Turnover, and Pre-Return on Assets - Post Return on Assets, are lower after the pandemic compared to before the pandemic. Whereas the means of two financial ratios, Pre-Quick Ratio - Post Quick Ratio and Pre-Net Profit Ratio - Post Net Profit Ratio, are also lower after the pandemic, but the differences between means are not statistically significant as indicated by the high p-values (greater than 0.05). On the other hand, the mean of the Pre Gross-Profit Ratio - Post Gross Profit Ratio is lower after the pandemic, but the difference is not statistically significant. The mean of the Pre-Return on Net Worth - Post Return on Net Worth is higher after the pandemic, but the difference is not statistically significant. Moreover, it can be observed that the differences between means of the Pre-Current Ratio - Post Current Ratio and Pre-Debt to Equity - Post Debt to Equity ratios are statistically significant at $p < 0.05$, indicating that the COVID-19 pandemic had a significant negative impact on these financial ratios. Overall, the results suggest that the COVID-19 pandemic had a mixed impact on the financial ratios of the companies in the paint sector of the Bombay Stock Exchange, with some ratios showing a significant decline, while others remained unchanged or improved slightly.

CONCLUSION:

COVID-19 pandemic had a mixed impact on the financial performance of these companies. The study found that the mean values of the Pre-Current Ratio - Post Current Ratio, Pre-Debt to Equity - Post Debt to Equity, Pre-Debtors Turnover - Post Debtors Turnover, and Pre-Return on Assets - Post Return on Assets ratios were lower after the pandemic compared to before the pandemic, indicating a decline in financial performance. However, only the differences in the Pre-Current Ratio - Post Current Ratio and Pre-Debt to Equity - Post Debt to Equity ratios were statistically significant at $p < 0.05$, suggesting that the COVID-19 pandemic had a significant negative impact on these ratios. On the other hand, the mean values of the Pre-Quick Ratio - Post Quick Ratio and Pre-Net Profit Ratio - Post Net Profit Ratio were also lower after the pandemic, but the differences were not statistically significant, indicating that the impact of the pandemic on

these ratios was not significant. The mean values of the Pre Gross-Profit Ratio - Post Gross Profit Ratio and Pre-Return on Net Worth - Post Return on Net Worth ratios were either lower or higher after the pandemic, but the differences were not statistically significant, suggesting that the pandemic had no significant impact on these ratios. In conclusion, the findings of this study suggest that the COVID-19 pandemic had a mixed impact on the financial performance of the companies in the paint sector of the Bombay Stock Exchange, with some ratios showing a significant decline, while others remained relatively unchanged. The results of this study can be used by investors, policymakers, and other stakeholders to make informed decisions regarding investments and financial planning in the paint sector of the Bombay Stock Exchange.

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