



Profitability Analysis Of Asian Paint Ltd.: An Empirical Study

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ABSTRACT

This paper is concerned with the profitability analysis of Asian paint Ltd. It is secondary data based study covering period of 10 years from 2001-02 to 2010-11. The importance of managing profitability lies in the fact that firm has to study the components of cost. In this paper an attempt has been made to analysis the different components of cost and also to find out the relationship between profitability and Raw material, power and fuel cost, employee cost, selling and distribution expenses, depreciation and tax. The co-efficient of correlation has been used to test the hypothesis. The "t" test resulted that the correlation is significant between different components of cost and profitability at 1% level of significant. Multiple regression was run through SPSS and resulted that raw material has impact on profitability

Keywords : Profitability, operational items, Correlation and coefficient of correlation and multiple regressions

Introduction

Profits are the cream of the business without it may not serve the purpose. It is true that profits are the useful intermediate beam towards which capital should be directed. Weston and Brigham mentioned that to the financial management profit is the test of efficiency and a measure of control to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the government a measure of taxable capacity and a basis of legislative action and the country profit is an index of economic progress national income generated and the rise in the standard of living. While profitability is an outcome of profit. In the other words no profit derived towards profitability. It may be remarked that the profit making ability might denote a constant or improved or deteriorated state of affairs during a given period, thus, profit is an absolute connotation were as profitability is a relative concepts. Profit and profitability are two different concepts, although they are closely related and mutually independent, playing distinct role in business.

About company

Armed with little knowledge and great determination, Champaklal H. Choksey, Chimanlal N. Choksi, Suryakant C. Dani and Arvind R. Vakil get together to manufacture paint in a garage on Foras Road, Bombay. They named their company as 'The Asian Oil & Paint Company'. It was started in the year 1945 and now the Asian Paints becomes 10th largest decorative paint company in the world. By the way of producing Decorative Paints and Industrial Coatings, the company pioneered in the segment from inception of its business. Asian Paints operates in five regions across the world viz. South Asia, South East Asia, South Pacific, Middle East and Caribbean Region through the four corporate brands viz. Asian Paints, Berger International, SCIB Paints and Apco Coatings. Also presents in 22 countries with 27 manufacturing locations, over 2500 SKU's, Integrated SAP, ERP & i2 and SCM solution. Asian Paints mascot, Gattu, the mischievous kid was born in the year 1954. The name was changed to Asian Paints (India) Private Limited in the year 1965. The Company was converted into a public limited company in the year 1973. A major modernisation programme was undertaken to streamline the paint production facilities by improving the layout of machines, addition to balancing equipment and replacement of old machinery during the year 1974 to meet the demand. During the year 1985, The Company had set up a third paint unit at Patancheru, a notified backward area near Hyderabad,

for the manufacture of 15,000 MT of paints and enamels and also in the same year entered into a collaboration agreement with Nippon Paints Company Limited, Japan, to obtain technical know-how to manufacture powder coating and coil coatings. Asian Paints commissioned a plant for the manufacture of synthetic rubbers lattices with a capacity of 1,200 tonnes per annum in the year of 1987. In the identical year of 1987, the company jointly with Tamil Nadu Industrial Development Corporation (TIDCO) promoted a joint sector company under the name of Pentasia Chemicals Ltd. (PCL), for the purpose of manufacture 3,000 TPA of pentaerythritol and 1,800 TPA of sodium formate. In the year 1990, the company had promoted Asian Paints (South Pacific) Ltd., in Fiji and Asian Paints (Tonga) Ltd are two joint venture sets up in abroad with the Company supplying the necessary know-how. Both these are the Company's subsidiaries. Apart from this, also the company had formulated two more joint ventures in the same year of 1990 under the names and styles of Asian Paints (Nepal) Pvt Ltd and Asian Paints (S.I.) Ltd.

Objectives of the study

1. To identify the operational items influencing the profitability of the Asian Paint Ltd.
2. To offer suggestions if any required for increasing profitability of the Asian Paint Ltd.

METHODOLOGY OF THE STUDY:

Source of the data: "Profitability analysis of Asian Paint Ltd.: An empirical study." has been made by using data from financial statements of all ten (10) years of Asian paint Ltd. the period of the study was ten years from 2002 to 2011. The data was collected from capital database and from the annual reports of the respective companies. Analysis and interpretation of data have been carried using the statistical techniques such as percentages, correlation and multiple regression analysis using SPSS package.

Table-1 SALES AND PROFIT DETAILS OF ASIAN PAINT LTD.

Year	Sales	Operating Profit	Interest	Gross Profit	Earning per share(Rs)
2011	7,228.81	1,233.65	16.34	1,217.31	75.59
2010	5,776.47	1,184.51	19.1	1,165.41	76.23
2009	5,027.33	618.99	15.91	603.08	34.8

2008	4,085.59	620.39	13.46	606.93	36.23
2007	3,380.99	468.5	11.92	456.58	26.51
2006	2,800.74	357.55	8.16	349.39	17.72
2005	2,362.69	324.98	6.57	318.41	16.81
2004	2,054.51	287.84	8.7	279.14	14.3
2003	1,885.26	285.9	12.53	273.37	21.5
2002	1,660.50	237.78	14.58	223.2	17.61
Mean	3,626.29	562.01	12.727	549.28	33.73

Sources: Compiled from Annual reports

Table 1 show that the sales and profit details of the Asian Ltd for the period from 2002 to 2011. Mean have been computed for sales, operating profit, interest, gross profit and earning per share. The total sales volume has increased from Rs. 1,660.50 crores in 2002 to Rs.7, 228.81 crores in 2011 with a mean of 3,626.29. Operating profit and interest have also increased with an average of 562.01and 12.727 respectively. Gross profit has increased from Rs. 223.2 crores in 2002 to Rs. 1,217.31 crores in 2011 with the average of 549.28. Earning per share has grown with mean of 33.73 during 2002 to 2011

RESULTS AND DISCUSSION

OPERATIONAL ITEMS INFLUENCING THE PROFITABILITY OF THE ASIAN PAINT LTD.

The results of operational items influencing the profitability of the Asian paint ltd are presented in this section. Before discussing the results, the variables considered in the study and their descriptions are given below.

DEPENDENT VARIABLE

Y= Reported net profit (Rupees in crores)

INDEPENDENT VARIABLESX1 = Raw Materials (Rupees in crores)

X2 = Power & Fuel Cost (Rupees in crores)

X3 = Employee Cost (Rupees in crores)

X4 = Other Manufacturing Expenses (Rupees in crores)

X5 = Selling and Administration Expenses (Rupees in crores)

X6 = PBIDT (Rupees in crores)

X7 = Depreciation (Rupees in crores)

X8 = PDT (Rupees in crores)

X9 = Tax (Rupees in crores) (Rupees in crores)

RESULTS OF CORRELATION ANALYSIS

In order to identify the degree of relationship between the selected independent variables with the dependent variable for the period 2002 to 2011, the Lower triangular correlation co-efficient matrix has been computed and presented in the table 2. It can be seen from the table that except two variables namely the selling expenses (x⁵) and depreciation (x⁷), the other variables have significant correlation with the reported net profit (profitability) of the Asian paint Ltd. with 1% of level of significant. Variable x1 is related to the operating income of the Asian paint Ltd. As it contains the Raw material spent by the firm. It is expected to have direct relation with the profitability, i.e., the higher the incidence of (x¹), the lower will be the profitability. The correlation co-efficient is positive (0.94) and significant at 1 per cent level. Hence, it can be stated that there is positive association between Y and (x⁶). Higher the PBIDT, the higher will be the profitability and vice versa. Therefore, it is concluded that the PBIDT is a major determinant of profitability. The other variables (x²) and (x⁴) are related to the power and fuel cost and employee cost of the Asian paint Ltd. respectively. These are the variables related to the expenses of the Asian paint Ltd. These two variables are to have an inverse relation with the profitability, i.e., the higher the incidence of (x²) and (x⁴), the lower will be the profitability. But, the correlation co-efficient is positive and significant at 1 per cent. It suggests that increase in power and fuel cost and employee cost lead to an increase in profitability and vice versa. It could be inferred that the variables the power and fuel cost and employee cost do have direct relationship with the profitability of the Asian paint Ltd. the other variables namely selling and distribution (x⁵), depreciation (x⁷) and tax (x⁹) are related to reported net profit and having significant relationship. These three variables bear positive sign and significant at 1 per cent level. It indicates that there is positive association of these variables with profitability. Another variable (x⁸) is related to PDT of the Asian paint Ltd.. It is an income earned by the Asian paint Ltd. It has to have an inverse relation with the profitability and vice versa, i.e., the more the tax charges lower will be the profitability. But, the correlation co-efficient of the variable (x⁹) is positive and significant at 1 per cent level. It leads one to conclude that the increased tax charges result in increased profitability.

Table-1Correlation Matrix

Variables	Statistics	Variables2												
		y	X.1	X2	X3	X4	X5	X6	X7	X8	X9			
Y	Pearson Correlation Sig. (2-tailed) N	1.000 . 10												
X1	Pearson Correlation Sig. (2-tailed) N	.941** .000 10	1.000 . 10											
X2	Pearson Correlation Sig. (2-tailed) N	.917** .000 10	.986** .000 10	1.000 . 10										
X3	Pearson Correlation Sig. (2-tailed) N	.945** .000 10	.991** .000 10	.972** .000 10	1.000 . 10									
X4	Pearson Correlation Sig. (2-tailed) N	.936** .000 10	.985** .000 10	.963** .000 10	.972** .000 10	1.000 . 10								
X5	Pearson Correlation Sig. (2-tailed) N	.953** .000 10	.993** .000 10	.973** .000 10	.994** .000 10	.968** .000 10	1.000 . 10							
X6	Pearson Correlation Sig. (2-tailed) N	.999** .000 10	.950** .000 10	.929** .000 10	.953** .000 10	.945** .000 10	.959** .000 10	1.000 . 10						
X7	Pearson Correlation Sig. (2-tailed) N	.800** .005 10	.847** .002 10	.895** .000 10	.808** .005 10	.855** .002 10	.801** .005 10	.817** .004 10	1.000 . 10					
X8	Pearson Correlation Sig. (2-tailed) N	1.000** .000 10	.947** .000 10	.922** .000 10	.951** .000 10	.942** .000 10	.958** .000 10	1.000** .000 10	.803** .005 10	1.000 . 10				
X9	Pearson Correlation Sig. (2-tailed) N	.997** .000 10	.935** .000 10	.902** .000 10	.936** .000 10	.938** .000 10	.945** .000 10	.996** .000 10	.787** .007 10	.997** .000 10	1.000 . 10			

** . Correlation is significant at the 0.01 level (2-tailed).

RESULTS OF MULTIPLE REGRESSION ANALYSIS

Attempt has been made to identify the relationship of each independent variable with the dependent variable without having control over the influence of other variables. Therefore, in order to identify the factors influencing the profitability, multiple regression analysis has been used. In the first step, since the variable Raw material has negative impact which decreased the profitability.

**TABLE 3:
REGRESSION ANALYSIS DEPENDENT VARIABLE Y =
REPORTED NET PROFIT**

Model		Unstand- ardized Coef- ficients	Std. Error	Stand- ardized Coef- ficients	t	Sig.
	B			Beta		
1	(Constant)	-174.253	35.425		-4.919	.016
	RM	-.213	.077	-.729	-2.758	.070
	PF	6.404	3.771	.361	1.698	.188
	EC	.801	.605	.237	1.323	.278
	S&D	.126	.228	.193	.555	.617
	DEP	5.012E-02	1.393	.003	.036	.974
	TAX	2.486	.219	.947	11.368	.001

Table-4 Model Summary

Model	R	R Square	Adjusted R	Std. Error of the Estimate
1	.999 ^a	.999	.997	13.8898

The co-efficient of multiple determinations (R²) as per step one, being 0.999 indicates that 99.9 per cent of the variations in dependent variable are explained by the independent variable in the model. The above analysis indicates that the variable viz., Raw material has a significant bearing on the profitability of the Asian paint Ltd.

SUMMARY OF MAJOR FINDINGS

1. The total sales volume has increased from Rs. 1660.5 crores in 2002 to Rs. 7228.81 crores in 2011 with a mean of 3,626.29. Operating profit and interest have also increased with the mean of 562.01 and 12.727 respectively. Gross profit has increased from Rs. 223.2 crores in 2002 to Rs. 1,217.31 crores in 2011 with the mean of 549.28. Earning per share has grown with mean of 33.73 during 2002 to 2011.
2. The results of correlation related to the operational items influencing the profitability of the Asian paint Ltd. reveal that all variables have significant correlation with the profitability of the Asian paint Ltd.. However, the results of regression related to the operational items influencing the profitability of the Asian paint Ltd. reveal that the variable x1 (Raw material) is the major determinant of profitability of the Asian paint Ltd.

CONCLUSION

The analysis of factors having influences on profitability reveals that all variables are positively related to profitability except Raw material which is having negative impact on profitability. If at all Asian paint Ltd. Has to increase its net profit it can do so either by increasing raw material cost or by decreasing other selected independent variable such as employee cost, power and fuel cost, depreciation, tax and selling and distribution expenses.

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