

# Financial analysis of paint industry

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Financial Reporting Analysis Paint Industry (Asian Paints) Financial Reporting

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Financial Reporting Analysis of Paint Industry (Asian Paints) PROFITABILITY RATIOS OPERATING PROFIT MARGIN Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. When looking at operating margin to determine the quality of a company, we look at the change in operating margin over time to compare the company's yearly or quarterly figures to those of its competitors. If a company's margin is increasing, it is earning more per dollar of sales. The higher the margin, the better is the performance of the company.

Operating Margin = Operating Income/Net Sales INDUSTRY COMPARISON  
 2011-12 2010-11 2009-10 2008-09 2007-08 Asian Paints 16. 81 17. 57 19.  
 24 13. 16 15. 83 Berger Paints 10. 61 10. 21 10. 45 8. 43 10. 08 Kansai

Nerolac 12. 3 12. 88 14. 55 10. 7 14. 24 Akzo Nobel 6. 65 11. 00 12. 33 11. 89 10. 60 25 20 2011-12 15 2010-11 2009-10 10 2008-09 2007-08 5 0 Asian Paints Berger Paints Kansai Nerolac Akzo Nobel The graphs show a higher value for Asian Paints as compared to its competitors. The reason for this is the high income earned for every sale concluded. However, the ratio for all the companies is dropping over the years.

Akzo Nobel has shown a sharper decline than all the others, which implies lesser income. The profit margin of the company has declined and hence OM has also declined. Page | 3 Financial Reporting Analysis of Paint Industry (Asian Paints) GROSS PROFIT MARGIN A company's total sales revenue minus its cost of goods sold, divided by the total sales revenue, expressed as a percentage. The gross margin represents the percentage of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services sold by a company.

The higher the percentage, the more the company retains on each dollar of sales to service its other costs and obligations. Gross Margin (%)= (Revenue- Cost of Sales) / Revenue INDUSTRY COMPARISON Asian Paints 15. 61 16. 14 18. 11 11. 90 14. 62 Berger Paints 9. 19 8. 77 8. 88 7. 08 8. 69 Kansai Nerolac 10. 24 10. 70 12. 11 8. 16 11. 23 Akzo Nobel 4. 77 9. 21 10. 29 9. 53 8. 18 2011-12 2010-11 2009-10 2008-09 2007-08 20 18 16 14 12 10 8 6 4 2 0 14. 62 11. 9 18. 11 16. 14 15. 61 Percentage (%) 12. 11 10. 7 10. 24 11. 23 7. 08 8. 88 8. 77 9. 19 8. 16 8. 18 9. 53 10. 29 9. 21 Akzo Nobel 8. 69 Asian Paints Kansai Nerolac

Berger Paints 2008 2009 2010 2011 2012 ? The gross profit margin percentages (GPMs) are almost constant over the years for all the four <https://assignbuster.com/financial-analysis-of-paint-industry/>

companies. Asian Paints has greater GPM than others as, being the largest company both in terms of the balance sheet and the market share; it enjoys huge economies of scale. This guarantees lower costs as compared to the competitors. ? Akzo Nobel's GPM has dipped drastically from FY11 to FY12 and that is because of increase in the expenses. These expenses were mainly on account of hiring (employee expenses) that the company did during the financial year 2012. 4. 77 Page | 4

Financial Reporting Analysis of Paint Industry (Asian Paints) NET PROFIT MARGIN The ratio of net profits to revenues for a company or business segment - typically expressed as a percentage - that shows how much of each dollar earned by the company is translated into profits. Net margins can generally be calculated as:  $\text{Net Margins} = \frac{\text{Net Profit}}{\text{Revenue}}$  Where  $\text{Net Profit} = \text{Revenue} - \text{COGS} - \text{Operating Expenses} - \text{Interest and Taxes}$

INDUSTRY COMPARISON

	2011-12	2010-11	2009-10	2008-09	2007-08
Asian Paints	11.38	11.61	14.29	7.97	10.28
Berger (%)	6.61	6.99	7.02	5.79	6.79
Paints Kansai Nerolac	7.86	9.03	9.04	6.58	9.00
Akzo Nobel	9.60	14.8	15.00	31.6	6.30

Asian Paints Berger Paints Kansai Nerolac Akzo Nobel 2011-12 2010-11 2009-10 2008-09 2007-08 ? Net margins will vary from company to company, and certain ranges can be expected from industry to industry, as similar business constraints exist in each distinct industry. ? Here, the values are falling for all the companies, and all of them have more or less similar values. This implies that the NPM is similar for all companies. Page | 5

Financial Reporting Analysis of Paint Industry (Asian Paints) EARNINGS PER SHARE The portion of a company's profit allocated to each outstanding share of common stock.

Earnings per share serve as an indicator of a company's profitability. When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time.  $EPS = \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$

INDUSTRY COMPARISON

Company	2011-12	2010-11	2009-10	2008-09	2007-08
Asian Paints	99.92	80.81	80.74	37.78	39.12
Berger Paints	5.12	4.29	3.47	2.78	2.89
Kansai Nerolac	40.06	38.22	61.42	36.59	44.46
Akzo Nobel	54.79	47.94	43.25	77.38	15.69
Others	120	100	80	60	40
Average	20	0	39.12	37.78	80.74

2008 2009 2010 15.69 Akzo Nobel 2011 ? The shares of Berger paints have a Face Value of Rs. 2, hence it has a larger number of shares. On the other hand, Asian Paints has Face Value of Rs. 10 therefore it has smaller number of shares. This implies that the EPS of Berger Paints is less than Asian Paints. ? Asian Paints has the best figures in spite of adjustment of EPS. A better comparison of the EPS can be done with adjusted EPS, as it gives realistic numbers. Hence for comparing, we can multiply the EPS of Berger Paints by 5 and then compare.

Also Berger paints has been the most consistent competitor throughout 5 year with steady increase in EPS. 77.38 43.25 47.94 54.79

2012 Page | 6

Financial Reporting Analysis of Paint Industry (Asian Paints) PERFORMANCE RATIOS PRICE/EARNINGS RATIO The price by earnings ratio is a valuation ratio of a company's current share price compared to its per-share earnings. A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. Price Earnings ratio =

(Market Value per Share) / (Earnings per Share) INDUSTRY COMPARISON  
2011-12 2010-11 2009-10 2008-09 2007-08

Asian Paints 31. 91 31. 35 25. 59 20. 96 30. 06 Berger Paints 20. 09 19. 86  
16. 83 12. 59 12. 58 Kansai Nerolac 22. 52 21. 3 9. 92 5. 58 8. 03 Akzo Nobel  
14. 64 16. 31 13. 85 5. 39 39. 74 45. 00 40. 00 35. 00 30. 00 25. 00 20. 00  
15. 00 10. 00 5. 00 0. 00 Asian Paints Kansai Nerolac Berger Paints 8. 03 5.  
58 9. 92 30. 06 20. 96 25. 59 31. 35 31. 91 21. 30 22. 52 12. 59 16. 83 19.  
86 20. 90 39. 74 12. 58 Akzo Nobel 2008 2009 2010 2011 5. 39 ? A high P/E

value implies future expectation of the markets from the shares of the company is high. Very high PE(price to Earning) implies an overpriced share in the market. High ROCE(Return on Capital Employed) with low PE implies that company is doing well and the price of shares will rise in future. Berger Paints in this regard stands out because it has efficiently managed the input raw material fluctuations very well. ? Asian Paints has the highest ROCE in the industry for FY12, as it is the market leader as well. Page | 7 13. 85 16. 31 14. 64 2012 Financial Reporting Analysis of Paint Industry (Asian Paints)  
RETURN ON CAPITAL EMPLOYED A ratio which indicates the efficiency and profitability of the capital investments by a company.

ROCE should always be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings.

ROCE = EBIT / (Total Assets - Current Liabilities) INDUSTRY COMPARISON  
2011-12 2010-11 2009-10 2008-09 2007-08 Asian Paints 52. 24 55. 73 62.  
84 49. 35 57. 32 Berger Paints 25. 88 26. 2 26. 64 18. 48 22. 9 Kansai  
Nerolac 27. 02 27. 3 26. 8 25. 4 28. 1 Akzo Nobel 17, 36 14. 17 12. 94 11. 57  
13. 04 70 60 50 40 30 20 10 0 57. 32 49. 35 62. 94 55. 73 52. 24 22. 9 18.



48 26. 64 26. 2 25. 88 25. 43 26. 78 27. 36 27. 02 28. 01 Asian Paints Kansai Nerolac Berger Paints 008 2009 2010 ? If (Return on Capital Employed) ROCE is high and Price to Earning is low (i. e. , it is share is available cheaply), the share is recommended. This is because the company is utilizing its capital well and the price is lower as compared to the earnings. ? Asian Paints has had a phenomenal growth in this regard. It has been very efficiently utilizing the capital employed. This factor has been one of the distinguishing factors clearly making it market Leader. 13. 04 11. 57 12. 94 14. 17 17. 36 Akzo Nobel 2011 2012 Page | 8 Financial Reporting Analysis of Paint Industry (Asian Paints)

DEBT COVERAGE RATIOS INTEREST COVERAGE RATIO A ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period. INDUSTRY COMPARISON 2011-12 2010-11 2009-10 2008-09 2007-08 Asian Paints 50. 66 74. 05 74. 27 55. 04 69. 73 Berger Paints 15. 14 17. 99 36. 62 8. 33 10. 28 Kansai Nerolac 340. 78 310. 54 196. 02 75. 24 112. 68 Akzo Nobel 64. 18 103. 00 116. 55 38. 29 33. 68 400 350 112. 68 75. 24 196. 02 300 250 200 69. 73 55. 4 74. 27 74. 05 50. 66 150 100 50 0 Asian Paints Products 310. 54 340. 7 Kansai Nerolac Berger Paints 8. 33 36. 62 17. 99 15. 14 10. 28 2008 2009 2010 33. 68 38. 29 Akzo Nobel 2011 ? For Kansai Nerolac, the debt has drastically reduced from 1. 23 to 0. 09Cr in FY11-12. Therefore a very drastic drop in Interest coverage Ratio is seen for FY12. Though Akzo Nobel has no long term debt, it the short liabilities are the reason which leads to the interest expenses. ? Also, Berger

Paints has seen its interest expenses increase by 50% and debt coverage ratio high indicating that it has higher interest payables.

This implies that it has taken huge debts, the reason for which might be for expansion, as the other ratios for the company do not point to any problems in its earnings capability Page | 9 116. 55 103 64. 18 2012 Financial Reporting Analysis of Paint Industry (Asian Paints) LIQUIDITY AND SOLVENCY RATIOS CURRENT RATIO The current ratio, also known as liquidity ratio, is used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations.

A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point. While this shows the company is not in good financial health, it does not necessarily mean that it will go bankrupt - as there are many ways to access financing - but it is definitely not a good sign. Current Ratio = Current Assets/ Current Liabilities

INDUSTRY COMPARISON 2011-12 2010-11 2009-10 2008-09 2007-08 Asian Paints 1. 07 0. 93 0. 89 1. 13 0. 99 Berger Paints 1. 44 1. 43 1. 57 1. 34 1. 15 Kansai Nerolac 1. 67 1. 51 1. 44 1. 47 1. 86 Akzo Nobel 1. 09 0. 85 0. 73 0. 79 0. 81 . 52 1. 66 2 1. 8 1. 6 0. 99 1. 13 0. 89 0. 93 1. 07 1. 4 1. 2 1 0. 8 0. 6 0. 4 0. 2 0 Asian Paints 1. 88 1. 3 1. 15 1. 34 1. 57 1. 43 1. 44 1. 53 Kansai Nerolac Berger Paints 2008 2009 2010 ? Paint industry player have typically very healthy CR ranging between 1 and 2. There are very few chances of their facing an insolvency problem. ? Asian Paints' current assets have seen an increase of about 50% and Current liabilities increase by about 25%, thus

leading to a greater increase in its CR from FY11 to FY12. Major increase was due to increase in cash and inventory levels compared to Asian Paints ?

Akzo Nobel has experienced a huge increase in inventory production improvement and hence its figures have improved. Page | 10 0. 81 0. 79 0. 73 0. 85 1. 09 Akzo Nobel 2011 2012 Financial Reporting Analysis of Paint Industry (Asian Paints) QUICK RATIO An indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its shortterm obligations with its most liquid assets. It is more conservative than the current ratio, as the current ratio often overestimates the company's ability to repay its short term obligations. The higher the quick ratio better is the position of company.

It is also known as the " acid-test ratio" or the " quick assets ratio". Quick Ratio = (Current Assets - Inventories - Prepaid Expenses)/Current Liabilities

INDUSTRY COMPARISON Asian Paints 0. 57 0. 34 0. 38 0. 59 0. 47 Berger Paints 1. 10 0. 99 0. 88 1. 10 1. 08 Kansai Nerolac . 84 . 74 . 79 . 99 1. 16 Akzo Nobel 0. 65 0. 48 0. 44 0. 48 0. 45 2011-12 2010-11 2009-10 2008-09 2007-08 1. 16 1. 4 1. 2 1 0. 59 0. 38 0. 34 0. 57 0. 8 1. 08 0. 79 0. 74 0. 84 1. 1 0. 88 0. 99 1. 1 0. 99 0. 6 0. 4 0. 2 0 Asian Paints Kansai Nerolac Berger Paints Akzo Nobel 2008 2009 2010 2011 ? The growth of QR has not been in line with the current ratio.

The large variation for different companies is because of the huge levels of inventory (huge portion of CA). ? As compared to FY11, Asian paints inventory has increased by 20% in FY12. ? Berger paints and Kansai Nerolac figures are good, others might have issues in solvency as they have very low values of QR. 0. 48 0. 44 0. 48 0. 65 0. 47 0. 45 2012 Page | 11 Financial <https://assignbuster.com/financial-analysis-of-paint-industry/>

Reporting Analysis of Paint Industry (Asian Paints) ACTIVITY RATIO INVENTORY TURNOVER RATIO Shows how many times a company's inventory is sold and replaced over a period. Number of days in Inventory holding i. e.  $(365 / \text{Inventory Turnover Ratio})$ , which is also directly proportional to the cost of handling inventory and should be as low as possible. Inventory Turnover Ratio =  $\text{COGS} / \text{Closing Inventory}$  INDUSTRY

COMPARISON Asian Paints 7. 56 7. 08 7. 95 9. 8 8. 03 Berger Paints 5. 80 5. 87 6. 37 6. 64 5. 92 2011-12 2010-11 2009-10 2008-09 2007-08 Kansai Nerolac 6. 76 7. 17 8. 17 10. 08 9. 11 Akzo Nobel 6. 35 8. 73 11. 60 10. 20 8. 72 10 8 6 4 2 0 8. 03 9. 8 7. 95 7. 08 7. 56 12 9. 11 10. 08 8. 17 7. 17 6. 76 6. 64 6. 37 5. 87 5. 8 8. 72 10. 2 11. 6 8. 73 5. 92 Berger Paints Akzo Nobel 14 Asian Paints Kansai Nerolac 008 2009 2010 2011 2012 ? Berger paints is best in the industry, next comes Akzo Nobel and then Asian Paint. ? Sales of Akzo Nobel have increased by 70%, proportionately COGS and inventory has increased by 100%, and therefore we can observe a sharp dip in its ratio. 6. 35

Page | 12 Financial Reporting Analysis of Paint Industry (Asian Paints) 3 – STEP DU PONT ANALYSIS ?  $\text{ROE} = \text{Operating efficiency} * \text{Asset Usage Efficiency} * \text{Financial Leverage}$  ? ROE broken down into three components : • Operating efficiency =  $\text{Net Income} / \text{Sales}$  • Asset Use efficiency =  $\text{Sales} / \text{Assets}$  • Financial Leverage =  $\text{Assets} / \text{Net worth}$

ASIAN PAINTS 16 14 12 10 8 6 4 2 0 2007. 5 2008 2008. 5 2009 2009. 5 2010 2010. 5 2011 2011. 5 2012 2012. 5 Operating Efficiency Asset Usage Efficiency Financial leverage ? Operating efficiency has increased from 10. 28 in 2008 to 11. 38 in FY12. Due to higher input costs, this parameter has dipped slightly compared to last year. ? Asset Use efficiency has been

improving because more and more assets are now productive that were procured in earlier years ? Financial Leverage has been flat throughout 5 years, meaning the company has largely relied on Cash or Equity rather than Debt to function.

BERGER PAINTS 8 7 6 5 4 3 2 1 0 2007 2008 Operating Efficiency 2009 2010 2011 2012 2013 Asset Usage Efficiency Financial Leverage Page | 13  
 Financial Reporting Analysis of Paint Industry (Asian Paints) ? Operating efficiency has been varying from 6. 79 2008 to 6. 61 in FY12. Company has not been able to manage the profitability due to varying Crude oil prices. ? Asset Use efficiency has been improving because more and more assets are now productive that were procured in earlier years ? Financial Leverage has been declining throughout 5 years, which is beneficial to the company.

KANSAI NEROLAC 10 9 8 7 6 5 4 3 2 1 0 2007 2008 2009 2010 2011 2012 2013 Operating efficiency Asset Usage Efficiency Financial Leverage ?  
 Operating efficiency has been very volatile varying between from 9 in 2008 to 7. 86 in FY12. Company has not been able to manage the profitability due to varying Crude oil prices. ? Asset Use efficiency has the lowest amongst the peers that have been compared because company has not been investing in PPE Page | 14 Financial Reporting Analysis of Paint Industry (Asian Paints) AKZO NOBEL 35 30 25 20 15 10 5 0 2007 2008 2009 2010 2011 2012 2013