# CHAPTER 1 - INTRODUCTION

Finance is regarded as the lifeblood of the business enterprise. This is because in the modern money oriented economy, finance is one of the basic foundations of all kinds of economic activities. It is master key, which provides access to all sources for being employed in a manufacturing and merchandising activity. It has rightly been said that business needs money to make more money. However it is also true that money begets more money only when it is properly managed. Hence efficient management of every business enterprise is clearly linked with efficient management of its finance. The three important activities of business enterprise are finance, production and marketing. Out of these, finance occupies great importance. Only through proper finance management other functions such as production marketing etc. can be better performed by managers. A firm can acquire funds from internal as well as external sources. Internal sources constitute issue of shares and retained earnings, while external sources are loans from financial institution, bonds etc. The modern finance manager occupies a key position in the top management and plays a dynamic role in solving complex problems concerning financial matters. When capital is invested in an enterprise it becomes the responsibility of management to administrate the financial affairs with caution and wisdom to achieve overall objectives of the business. In accounting, financial statements are the means of convey to management owners and to interested outsiders to know about profitability etc. The preparation of financial is not the first step in the accounting process but they are the end products of accounting process. Which give concise accounting information of the accounting period is over. All financial transaction is recorded first in subsidiary books and subsequently. They are posted to ledger accounts, the balances of ledger accounts at the end of the year are ultimately presented through financial statements. These statements are called final accounts.

The study is focused on a company on paint industry Asian paints. Asian paint is India's largest paint company and Asia's third largest paint company with a turnover of 77.06 billion. The group has an enviable reputation in the corporate world for professionalism face track growth and building shareholders equity. Asian paints become a corporate force and India's leading Paint Company.

## 1.1 STATEMENT OF THE PROBLEM

Finance is the life blood of the business. The business needs financial support to carry out its operations they have to procure funds and make optimum utilization of these funds. Every business activities require finance. Finance is needed to establish a business, to run it to modernize it, to expand or diversify it. A firm can obtain growth and development only by performing in a better way in all the fields. If the performance is not up to the satisfactory level, proper precautionary measures have to be adopted in the sick or efficient areas. The study has been undertaken to analyze the financial performance of Asian paints. Financial performance of every organization is made to ensure smooth working and maximizing profit and wealth. Every business enterprise attempts to sustain itself and grow in a highly competitive environment.

## 1.2 SCOPE AND SIGNIFICANCE

The ultimate objective of business is to make profit. The company has to ensure solvency and it has to maintain a reasonable liquidity position along with profitability. Therefore periodical review of the affairs of the company to assess the profitability, solvency and liquidity is essential. The technique adopted for assessing the profitability liquidity and solvency of business concern is known as financial performance analysis. The financial data is summarized in the form of financial statements are outstanding significance to the various parties interested in growth of the company. Asian paints are a leading paint manufacturing company in India. The significance of the study is that, to get to know the financial performance of Asian Paints Company and the way in which the theoretical accounting procedures are put into practical way. The study focuses on profit and loss account and balance sheet of the company for the last five years and other information provided by the company on the basis of analysis it will be opportunity for us to understand the change occurred in financial matters in the company for the last five years.

## 1.3 OBJECTIVES

The objective of the study is to get details of the financial performance of the company Asian paints. To assess the profitability of the company.

- To evaluate liquidity position of the company.
- To evaluate the solvency position of the company.

- To make recommendations and suggestions of the company.

## 1.4 PERIOD OF STUDY

The period of this study is limited to five years from 2006-07 to 2010-11

## 1.5 METHODOLOGY

The methodology adopted in the study is both descriptive and analytical. The study is based on secondary data collected from Asian paints. The secondary relating to the study is collected from the annual reports. The information so collected has been rearranged in a meaningful manner for the purpose of analysis. For analysis of the data ratios, averages, charts and diagrams have been used.

## 1.6 LIMITATIONS OF THE STUDY

The study is subject to certain limitations. In spite of the care taken in collection, classification and analysis of data , the following limitations are noted :

- ✓ The study has the limitations of accounting ratios.
- ✓ The study was confined to a period of five years, only and as such the objectives may not be fully achieved.
- ✓ The study was concerned on a single company and no comparison is been made.
- ✓ Individual and split up figures are not available as some of the related items have been given in total.
- ✓ The study is based on secondary data so there is chance of errors and omissions.

## 1.7 CHAPTERISATION

Chapter 1-Introduction

Chapter 2- Company Profile

Chapter 3-Analysis and interpretation

Chapter 4-Findings and suggestions

# CHAPTER 2 – COMPANY PROFILE

## INTRODUCING THE ASIAN PAINTS GROUP

Asian Paints is India's largest paint company and Asia's third largest paint company, with a turnover of Rs 77.06 billion. The group has an enviable reputation in the corporate world for professionalism, fast track growth, and building shareholder equity. Asian Paints operates in 17 countries and has 24 paint manufacturing facilities in the world servicing consumers in over 65 countries. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International Limited, Apco Coatings, SCIB Paints and Tubman's. Forbes Global magazine USA ranked Asian Paints among the 200 Best Small Companies in the World for 2002 and 2003 and presented the 'Best under a Billion 'award, to the company. Asian Paints is the only paint company in the world to receive this recognition. Forbes has also ranked Asian Paints among the Best under a Billion

Companies in Asia In 2005, 06 and 07, The Company have come a long way since its small beginnings in 1942. Four friends who were willing to take on the worlds biggest, most famous paint companies operating in India at that time set it up as a partnership firm. Over the course of 25 years Asian Paints became a corporate force and India's leading paints company. Driven by its strong consumer-focus and innovative spirit, the company has been the market leader in paints since 1968. Today it is double the size of any other paint company in India. Asian Paints manufactures a wide range of paints for Decorative and Industrial use. In Decorative paints, Asian Paints is present in all the four segments viz. Interior Wall Finishes, Exterior Wall Finishes, Enamels and Wood Finishes. It also introduced many innovative concepts in the Indian paint industry like Colour Worlds (Dealer Tinting Systems), Home Solutions (painting solutions Service), Kids World (painting solutions for Kid's room), Colour Next (Prediction of Colour Trends through in-depth research) and Royale Play Special Effect Paints, just to name a few. Asian Paints has always been ahead when it comes to providing consumer experience. It has set up a Signature Store in Mumbai where consumers are educated on colours and how it can change their homes. Vertical integration has seen it diversify into products such as Phthalic Anhydride and Pentaerythritol, which are used in the paint

manufacturing process. Asian Paints also operates through APPG (50:50 JV between Asian Paints and PPG Inc, USA, one of the largest automotive coatings manufacturer in the world) to service the increasing requirements of the Indian automotive coatings market. Another 50:50 JV with PPG has been proposed which will service the protective, industrial powder, industrial containers and light industrial coatings markets.

**INTERNATIONAL PRESENCE**

Today the Asian Paints group operates in 17 countries across the world. It has Manufacturing facilities in each of these countries and is the largest paint company in eleven countries. The group operates in five regions across the world viz. South Asia, South East Asia, South Pacific, Middle East and Caribbean region through the five corporate brands viz. Asian Paints, Berger International, SCIB Paints, and Apco Coatings and Tubman's. The Group operates as:

Asian Paints Limited is an India-based color and paint company. The Company, along with its subsidiaries, has operations in 17 countries globally with 23 paint manufacturing facilities servicing consumers in 65 countries through Berger International, SCIB Paints, Apco Coatings and Tubman's. The products of the Company include ancillaries, automotive, decorative paints, and industrial paints. During the fiscal year ended March 31, 2011, the Company produced 474,881 metric tons of paints, enamels and varnishes; 188,880 metric tons of synthetic resins and polymers; 29,796 metric tons of phthalic anhydride; 4,860 metric tons of malefic acid; 5,400 metric tons of pentaerythritol; 3,300 metric tons of sodium formats, and 8,100 metric tons of formaldehyde. The Company has manufacturing plants in Maharashtra, Gujarat, Andhra Pradesh, Uttar Pradesh, Tamil Nadu and Haryana

Asian Paints Limited was established way back on February 1, 1942 and today stands as India's largest paint company and Asia's third largest paint company with an annual turnover of Rs 5,463 crore.

Presently the company is having its presence in 22 countries with 28 manufacturing locations, over 2500 SKU's, Integrated SAP - ERP & i2 - SCM

solution. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International, Apco Coatings, SCIB Paints and Tubman's.

The company manufactures paints in the category of Decorative, Automotive and Industrial segment. Apart from these the company also manufactures various Accessories like, Wall Primer, Wood Primer, Putty and Strainers etc.

Asian Paints along with its subsidiaries has operations in 20 countries across the world and 28 paint manufacturing facilities, servicing consumers in 65 countries through Berger International, SCIB Paints-Egypt, Asian Paints, Apco Coatings and Tubman's. Asian Paints operates in 5 regions across the world viz. South Asia, South East Asia, South Pacific, Middle East and Caribbean region through the five corporate brands viz. Asian Paints, Berger International, SCIB Paints, Apco Coatings and Tubman's. In 10 markets, it operates through its subsidiary, Berger International Limited; in Egypt through SCIB Paints; in 5 markets in the South Pacific it operates through Apco Coatings and in Fiji and Samoa it also operates through Tubman's.

The company is having its strategically located Indian plants at Bhandup (Maharashtra), Kasha (Uttar Pradesh) and Sriperumbudur (Tamil Nadu), Ankles war (Gujarat), Patancheru (Andhra Pradesh) and the newly built plant at Rohtak (Haryana).

The company is having state-of-the-art supply chain system using cutting edge technology to integrate all its plants, regional distribution centers, outside processing centers and branches in India. All the company's paints plants in India, two chemical plants, 18 processing centers, 350 raw material and intermediate goods suppliers, 140 packing material vendors, 6 regional distribution centers, 72 depots are integrated.

The company is having a big and experienced R&D team which has successfully managed to develop High-end exterior finished and wood finishes in-house, which was earlier imported into the country. These products are

currently marketed under Asian Paints Elastomeric Hi-Stretch Exterior paint and Asian Paints PU wood finish respectively.

The company is having three subsidiaries viz. Apco Coatings - it is a subsidiary of Asian Paints in the South Pacific islands. The company operates in Australia, Fiji, Tonga, Solomon Islands and Vanuatu under the brand name of Apco Coatings.

The other subsidiary of the company is Asian Paints Industrial Coatings Limited which has been set up to cater to the powder coatings market which is one of the fastest growing segments in the industrial coatings market.

Berger International Limited in November 2002, became a part of the Asian Paints Group. Today, the name of Berger is synonymous with quality and innovation. BIL has presence across three regions viz. Middle East, Caribbean and South East Asia. Asian Paints participates in the Industrial Coatings segment directly, through a 50:50 JV with PPG Inc. of US as well as through a 100% subsidiary

On the recommendations of Booz, Allen and Hamilton, Asian Paints restructured itself into Growth, Decorative and International business units and has adopted SCM and ERP technology. Asian Paints aims to become the 5th largest decorative paint company in the world

**Milestones:**

**2011-** Asian Paints has informed that the two plants of the company's subsidiary, SCIB Chemicals SAE, Egypt which were shut due to prolonged curfew have restarted the operations partially with effect from February 06, 2011. **2010-** Asian Paints announced the commencement of commercial production at its new paint manufacturing facility in Rohtak, Haryana. **2008-** The company performs Bhoomi Pooja at its proposed paint plant site at Rohtak in Haryana. **2007-** Asian Paints enter into a share purchase agreement for the sale of its stake in Asian Paints Queensland. **2006-** Asian Paint Consolidated Turnover Crosses Rs. 3000 crore. **2005-** Four Asian Paints Plants Conferred

With ‘Sword of Honour’ By the British Safety Council. **2004-** Asian Paints is the only Paint Company in the World to be awarded the Forbes Best under a Billion companies in the world. **2003-** AsianPaints (India) awarded the 9.2% stake after emerging the highest bidder at a bid price of Rs 205 per share for a total value of Rs 77.09 crore. **2003-** Berger International (BIL) the Singapore based subsidiary of Asian Paints, Asia s fourth largest paint company, has entered into a technical consultancy and advice arrangement with Berger Paints Pakistan Limited, the second largest paint company in Pakistan. **1957 - 66-** The family-owned company makes the transition to a professionally managed organization. British company Ballmer Laurie rejects the products of a giant British paint company in favour of Asian Paints. Asian Paints embarks on an ambitious grassroots marketing campaign, partnering with thousands of dealers in small towns all over India. **1967 -** Asian Paints emerges as India's leading paint company ahead of any international competition. **1945 -** Asian Paints touches a turnover of Rs. 3,50,000, with an innovative marketing strategy 'to reach consumers in the remotest corners of the country with small packs.' **1954 -** Asian Paints mascot, Gattu, the mischievous kid, is born. **1st February, 1942 -** 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 name their company 'The Asian Oil & Paint Company', a name that they picked randomly from a telephone directory.

**Achievements/ recognition:**

- Asian Paints is the 10th largest decorative paint company in the world
- Awarded the 'Sword of Honour' by the British Safety Council for all the paint plants in India. This award is considered as the pinnacle of achievement in safety across the world.
- Forbes Global magazine, USA ranked Asian Paints amongst the 200 'Best Small Companies of the world' in 2002 and 2003 and amongst the top 200 'Under a Billion Firms' of Asia in 2005.
- Ranked 24th amongst the top paint companies in the world by Coatings World - Top Companies Report 2006.

- The Asset - one of Asia's leading financial magazines ranked Asian Paints amongst the leading Indian companies in Corporate Governance in 2002 and 2005.
- Received the Ernst & Young 'Entrepreneur of the Year - Manufacturing' award in 2003.
- Rated Best Employer by BT-Hewitt survey, 2000 Bluest of the blue chips by Hindu Business Line; Most admired company to work for by ET-BT survey, 2000
- **Corporate Information**

  Asian Paints is a fully integrated **paints company** that employs the most advanced and prudent principles for its working.
- **Corporate Citizenship**

  While working towards enhancing customer experience we at Asian Paints, look at the bigger picture by being aware about environmental hazards. All our manufacturing plants and units are certified environmentally safe.
- **Group Subsidiaries**

  Currently, South Asia, South East Asia, South Pacific, Middle East & Caribbean region are covered through five corporate brands viz. Asian Paints, Berger International, SCIB Paints, APCO Coatings & Taubmans respectively.
- **Awards & Recognition**

  We have been widely recognized by entities the world over with awards & recognition of high caliber. With the aim of fulfilling customer needs & receive acknowledgement in return, which eggs us on to deliver more than expected.
- **Financial Results**

  Our working style is inclusive and we show transparency in our dealings. Presenting, the annual reports with information that keep you informed and help you make decisions.

# CHAPTER 3 – ANALYSIS AND INTERPRETATION

## DEFINITIONS OF FINANCIAL STATEMENTS

According to John N. Myer "The Financial Statements provide a summary of accounts of a business enterprise, the Balance Sheet reflecting the assets and liabilities and the Income statement showing the results of operations during a certain period". This definition emphasizes the importance of Balance Sheet and Profit & Loss Account, but ignores of other financial statements like Cash Flow Statement and Statement of Retained Earnings.

Smith and Ashburn defines Financial Statements as "the end product of financial accounting is a set of financial statements, that purports to reveal the financial position of the enterprise the results of its recent activities, and an analysis of what has been done with earnings." From the definition it is clear that financial statements reveal financial position and profitability of the concern and the utilization of retained earnings.

## NATURE OF FINANCIAL STATEMENTS

Financial statements are prepared for the purpose of periodical review or report by the management and deal with the state of investment in business and result achieved during the period under review. They reflect a combination of recorded facts, accounting conventions and personal judgments. From this it is clear that financial statements are affected by three things i.e., recorded facts, accounting conventions and personal judgments. Only those facts which are recorded in the business books will be reflected in the financial statements.

Following points reflect truly the nature of financial statements of business entities:

(i) These are reports or summarized reviews about the performance, achievements and weakness of business.
(ii) These are prepared at the end of the accounting period so that various parties may take decisions of their future actions in respect of the relationship with the business.

(iii) The reliability of financial statements depends on the reliability of accounting data. These statements cannot be said true and fair representatives of the strength or profitability of the concern if there are numerous frauds and the defalcations in the accounts.

(iv) The figures in the financial statements are a combination of recorded facts. There may be certain developments and factors which may be very important for the business are not taken into account as these are not recorded in the routine of accounting. Moreover, fixed assets are recorded at historical value without taking into consideration the change in their values due to price level fluctuations.

(v) These statements are prepared as per accounting concepts and conventions.

(vi) These statements are influenced by the personal judgment of the accountant though he is expected to be more objective in his approach. These judgments may relate to valuation of inventory, depreciation of fixed assets and while making distinction between capital and revenue.

**OBJECTIVES OF FINANCIAL STATEMENTS**

The accounting Principles Board of America mentions the objectives of financial statements as follows:

(i) To provide reliable financial information about economic resources and obligations of a business enterprise.

(ii) To provide reliable information about the net resources (resources less obligations) of an enterprise that results from its activities.

(iii) To provide financial information that assists in estimating the earning potential of a business.

(iv) To provide other needed information about changes in economic resources or obligations.

(v) To disclose to the extent possible, other information related to financial statements that is relevant to the needs of the users of these statements.

## LIMITATIONS OF FINANCIAL STATEMENTS

Following are the main limitations of financial statements:

**(i)** **Interim and not final report**: Financial statements do not depict the exact position and are essentially interim reports. The exact position can be only known if the business is closed.

**(ii)** **Lack of precision and definiteness**: Financial statements may not be realistic because these are prepared by following certain basic concept and conventions. For example, going concern concept gives us an idea that business will continue and assets are to be recorded at the cost but the book value at which the asset is shown may not be actually realizable. Similarly, by following the principle of conservatism the financial statements will not reflect the true position of the business.

**(iii)** **Lack of objective judgment**: Financial statements are influenced by personal judgment of the accountant. He may select any method for depreciation, valuation of stock, amortization of fixed assets and treatment of deferred revenue expenditure. Such judgment if based on integrity and competency of the accountant will definitely affect the preparation of the financial statements.

**(iv)** **Record only monetary facts**: Financial statements disclose only monetary facts i.e., those transactions are recorded in the books of accounts which can be measured in monetary terms. Those transactions which cannot be measured in monetary terms such as, conflict between production manager and marketing manager may be very important for a business concern but not recorded in the business books.

**(v)** **Historical in nature**: These statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future. Modern management is forward looking but these statements do not directly help them in making future estimates and taking decisions for the future.

(vi) **Artificial view**: These statements do not give a real and correct report about the worth of the assets and their loss of value

(vii) **Scope for manipulations**: These statements are sometimes prepared according to the needs of the situation or the whims of the management. A highly efficient concern may declare dividend by wrongly showing profit in the profit and loss account. For this under or over valuation of inventory, over or under charge of depreciation, excessive or inadequate provision for anticipated losses and other such manipulations may be resorted to. Window dressing may also be resorted to in order to show better financial position of concern than its real position.

(viii) **Inadequate Information**: There are many parties who are interested in the information given in the financial statements but their objectives and requirements differ. The financial statements as prepared under the provisions of the Companies Act 1956, fail to the needs of all. These are mainly prepared to safeguard the interest of shareholders.

The above limitations of financial statements must be taken into consideration before making their analysis.

## MEANING OF ANALYSIS OF FINANCIAL STATEMENTS

Analysis is the process of critical examining in details accounting information given in the financial statements. For the purpose of analysis, individual items are studied, their interrelationships with other related figures established, the date is sometimes rearranged to have better understanding of the information with the help of different techniques or tools for the purpose. Analysis financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of firm's position and performance. In the words of Myer, "Financial Statements – Analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of trends of these actors as shown in a series of statements." The analysis of financial statements thus refers to the treatment of the information contained in the

financial statements in a way so as to afford a full diagnosis of the treatment of the profitability and financial position of the firm concerned. For this purpose financial statements are classified methodically, analyzed and compared with the figures of previous years or other similar firms.

## OBJECTIVES (OR USES) OF FINANCIAL ANALYSIS

Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through comparison of ratios for the same concern over a period of years; or for one department of a concern against other departments of the same concern (intra-firm comparison). Accounting ratios calculated for a number of years show the trend of the change of position, i.e., whether the trend is upward or downward or static. The ascertainment of trend helps us in making estimates for the future. Keeping in view the importance of accounting ratios the accountant should calculate the ratios in appropriate form, as early as possible, for to the management for managerial control.

**Main objectives of analysis of financial statements are to assess:**

- The present and future earning capacity or profitability of the concern.
- The operational efficiency of the concern as a whole and of its various parts or departments.
- The short-term & long-term solvency of the concern for the benefit of the debenture holders and trade creditors.
- The comparative study in regard to one firm with another firm or one department with another department.
- The possibility of developments in the future by making forecast and preparing budgets.
- The financial stability of a business concern,
- The real meaning and significance of financial data and
- The long-term liquidity of its funds.

## TYPES OF FINANCIAL STATEMENT ANALYSIS

Different types of financial statements analysis can be made on the basis of:

- The nature of the analyst and the material used by him.
- The objectives of the analysis, and
- The modus operandi of the analysis.

**These are discussed one by one**

**1. According to the nature of the analyst and the** material used by him .on this basis, the financial analysis can be external and internal analysis

**a. External analysis** : it is made by those presence who are not connected with the enterprise they do not have access to the enterprise. They do not have acess to the detailed record of the company and have to depend mostly on published statements

**b. Internal analysis :** The internal analysis is made by those presence who have acess to the books of accounts. They are the members of the organization. Analysis of financial statements or other financial data for managerial purpose is the internal types of analysis. The internal analysis can give more reliable result than the external analyst because every type of information is at his disposal.

**2. According to the objectives of the analysis:**

**a. Long-term analysis** : This is analysis is made in order to study the long-term financial stability. Solvency and liquidity as well as profitability and earning capacity of a business concern.

**b. Short-term analysis**: This is made to determine the short-term solvency, stability & liquidity as well as earning capacity of the business

**3. According to the modus operandi of the analysis:**

**a. Horizontal (or dynamic) analysis**: This is analysis is made to review and analyze financial statements of a number of years and therefore based of financial data taken from several years.

**b. Vertical (or static) analysis**: This analysis is made to review and analyze the financial statements of one particular year only. Ratio analysis of the financial year relating to a particular accounting year is an example of this type of analysis.

**Techniques (tools or methods) of analysis and interpretations**

Following techniques can be used

- Comparitive Financial Statements
- Common Measurement Statements
- Trend percentage Analysis
- Fund Flow Statement
- Net working Capital Analysis
- Cash Flow Statement
- Ratio Analysis

1. **Comparative Financial Statements**

   This is done to make the financial data more meaningful. These statements is prepared to show absolute data of two or more years, increases or decreases an absolute data in value and in terms of percentages.

   a. **Comparative Income Statement**

   This statement helps in deriving meaningful conclusions as it is very easy to ascertain the changes in sales volume, administrative expenses, selling and distribution expenses, cost of sales etc.

   b. **Comparative Balance Sheet**

   This facilitates the comparison of figures of two or more periods and provide necessary information which may be useful in forming an opinion regarding the financial condition as well as progressive outlook of the concern.

2. **Common Measurement** (size) **Statement (**Common measurement analysis)

In the income statement the sale figure is taken as base and all other figures are expressed as percentage of sales. Similarly in the balance sheet the total of assets and liabilities is taken as base and all other figures are expressed as a percentage to his total. The percentages so calculated can be easily compared with the corresponding percentages in other periods and meaningful conclusions can be drawn.

a. **Trend Percentages Analysis**

This analysis is an important tool of horizontal financial analysis. This method is immensely helpful in making a comparative study of the financial statements of several years. Under this trend percentages are calculated for each item of the financial statements taking the figure of base year as 100.

b. **Funds Flow Statements (or analysis)**

This statement is prepared in order to reveal clearly the various sources where from the funds are prepared to finance the activities of a business concern during the accounting period and also brings to highlight to uses to which these funds are put during the said period.

c. **Cash Flow Statement (or analysis)**

This statement is prepared to know clearly the various items of inflow and outflow of cash it is an essential tool for short-term financial analysis and is very helpful in the evaluation of current liquidity of a business concern.

d. **Statement of changes in working capital (or net working analysis)**

This statement is prepared to know the net change in working capital of the business between two specified dates. It is prepared from current assets and current liabilities of the said dates to show the increase or decrease in working capital.

e. **Ratio analysis**

It is done to develop meaningful relationship between individual items or group of items usually shown in the periodical financial statements published by the concern.

**Limitations of Financial Statement Analysis**

**I. Historical nature of financial statement**

The basic nature of these statements is historical, i.e., relating to the past period. Past can never be a precise and infallible index of the future and can never be hundred percent helpful for the future forecast and planning.

II. **No substitute for judgement**

Analysis of financial statements is a tool which can be used profitably by an expert analyst but may lead to faulty conclusions if used by unskilled analyst. The results of analysis, thus, should not be taken as judgement or conclusions.

**III. Reliability of Figures**

The reliability of analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulations in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other factors.

IV. **Single year analysis is not much valuable and useful**

The analysis of these statements relating to a single year only will have limited use and value. Analysis should be extended over a number of years so that the results may be compared to draw meaningful conclusions.

V. **Results may have different interpretation**

The results or indications derived from the analysis of these statements may be differently interpreted by different users. For example, a high current ratio may suit the banker.

VI. **Change in accounting methods**

Analysis will be effective if the figure derived from the financial statements are comparable. Due to change in accounting methods the figures of the current period may have no comparable base, then the whole exercise of analysis will become futile and will be of little value.

VII. **Pitfalls in interfirm Comparison**

When different firms are adopting different procedures, records, objectives, policies and different items under similar headings, comparison will become more difficult. If done,it will not provide reliable base to assess the performance, efficiency, profitability and financial condition of the firm as compared to industry as a whole.

VIII. **Price level changes reduce the validity of analysis**

The continuous and rapid changes in the value of money, in the present day economy, also reduces the validity of the analysis.

IX. **Shortcoming of the tool of analysis**

There different tools of analysis available to the analyst. Which tool is to be used in a particular situation depends on the skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may give misleading results and may lead to wrong conclusion.

**Ratio Analysis**

Ratio analysis is one of the powerful tool of the financial analysis . A ratio can be defined as "the indicated quotient of two mathematical expressions "and as "the relationship between two or more things". Ratio thus the numerical or an arithmetical relationship between two figures. A ratio can be used as a yardstick for evaluating the financial position and performance of a concern because the absolute accounting data cannot provide meaningful understanding and interpretation .A ratio is the Relationship between two accounting items expressed mathematically. Ratio analysis helps the analyst to make quantitative judgment with regard to concern's financial position and performance .

Absolute figures are valuable but they standing alone convey no meaning unless compared with another .Accounting ratios show interrelationships which exist among various accounting data. When relationships among various accounting data supplied by financial statements are worked out , they are known as accounting ratios. The analysis of financial statement with ratio called ratio analysis. Ratio analysis stands for the process of determining and presenting the relationship of items and groups of

items in the financial statements. It is an important technique of financial analysis .It is a way by which financial stability and health of a concern can be judged.

Classification of ratios

Ratios may be classified in a number of ways keeping in view the particular purpose. This classification is as under:

1. Profitability ratios
2. Coverage ratios
3. Turnover ratios
4. Financial ratios
5. Leverage ratios

**Importance (or advantages) of Ratio Analysis**

1. **Useful in financial position analysis**

Accounting ratios reveal the financial position of the concern. This helps the banks, insurance companies and other financial institutions in leading and making investment decision.

2. **Useful in simplifying accounting figures**

Accounting ratios simplify, summarise and systematize the accounting figures in order to make them more understandable and in lucid form. They highlight the inter-relationship which exists between various segments of the business as expressed by accounting segments.

3. **Useful in assessing the operational efficiency**

Accounting ratios helps to have to have an idea of the working of a concern. The efficiency of the firm becomes evident when analysis is based on accounting ratios. They diagnose the financial health by evaluating liquidity, solvency, profitability etc….

4. **Useful in forecasting purposes**

If accounting ratios are calculated for a number of years, then a trend is established. This trend helps in setting up future plans and forecasting.

5. **Useful in locating the weak spots of the business**

Accounting ratios are of great assistance in locating the weak spots in the business even though the overall performance may be efficient. Weakness in financial structure due to incorrect policies in the past or present are revealed through accounting ratios.

6. **Useful in comparison of performance**

Through accounting ratios comparison can made between one department of a firm with another of the same firm in order to evaluate the performance of various departments in the firm. Manager is naturally interested in such comparison in order to know the proper and smooth functioning of such departments.

**Limitations Of Accounting Ratios**

- False results if based on incorrect accounting data
- No idea of probable happening in future
- Variation in accounting methods
- Price level changes
- Only one method of analysis
- No common standards
- Different earnings attached to the same term
- Ignores quantitative factors
- No use if ratios are worked out for insignificant and unrelated figures

**ANALYSIS OF RATIOS**

## 1. Profitability Ratios:

Profitability is the overall measure of the companies with regard to efficient and effective utilization of resources at their command. It indicates in a nut shell the effectiveness of the decisions taken by the management from time to time. Profitability ratios are of utmost importance for a concern. These ratios are calculated to enlighten the end results of business activities which is the sole criterion of the overall efficiency of a business concern. Following are the important profitability ratios:

a. **GROSS PROFIT RATIO**

In case of gross profit ratio higher the ratio the better it is. A low ratio indicates unfavorable trend in the form of reduction in selling prices not accompanied by proportionate decrease in cost of goods or increase in cost of production. The gross profit should be adequate to cover fixed expenses, dividends and building up of reserves. It is important that a business keep up its margin of gross profit, otherwise it may not cover its operating expenses and thus provide an adequate return to proprietors.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net sales}} \times 100$$

**Table 1.1 Gross Profit Ratios (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| **2006-07** | **483.95** | **2953.30** | **16.38** |
| **2007-08** | **633.91** | **3595.33** | **17.63** |
| **2008-09** | **645.47** | **4510.12** | **14.31** |
| **2009-10** | **1047.75** | **5367.72** | **19.51** |
| **2010-11** | **1247.46** | **6606.02** | **18.88** |

Source: Annual report of Asian paints ltd from the year 2006-2011

Gross profit tells gross margin on trading. Higher the ratio, the better it is. While comparing gross profit of 5 years we can find a fluctuating trend. On 2010 ratio is higher compared to other years which indicates a higher profitability of Asian paints. But in the year 2009 it was low, A lower ratio indicates unfavorable trend in the form of reduction in selling price act accompanied by proportionate decrease in cost of goods or increase in cost of production.

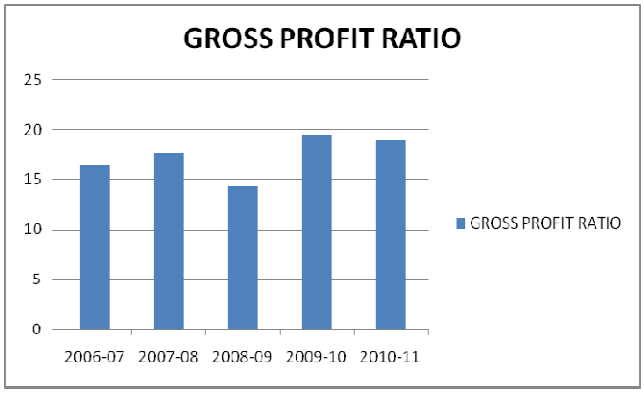


**Figure 1.1 Gross Profit Ratios**

**b. OPERATING RATIO**

This ratio indicates the proportion that the cost of sales bears to sales. Cost of sales indicated direct cost of goods sold as well as other operating expenses which have matching relationship with sales. It excludes income and expenses which have no bearing o production and sales is non – operating incomes and expenses as interest and dividend received on investment , interest paid on long term loans and debentures ,profit or loss on sale of fixed assets or long term investment. It is calculated as follows:

$$\text{Operating ratio} = \frac{\text{cost of goods sold + operating expenses}}{\text{Net sales}} * 100$$

**Table 1.2 Operating profit Ratios (Rupees in Crores)**

| Year | Cost Of Sales | Net Sales | Ratio |
|---|---|---|---|
| **2006-07** | **2519.09** | **2953.30** | **85.23** |
| **2007-08** | **3026.04** | **3595.33** | **84.17** |
| **2008-09** | **3916.19** | **4510.12** | **86.33** |
| **2009-10** | **4334.76** | **5367.72** | **80.75** |
| **2010-11** | **5444.75** | **6606.02** | **82.42** |

Source: Annual report of Asian paints ltd from the year 2006-2011

In the case of operating ratio, a low ratio is favorable to the company. Here we can find a ratio in the year 2010 and a higher ratio on 2009. Higher the ratio, the less favorable it is because it would have a smaller margin of operating profit for the payment of dividends and the creation of reserves. When comparing operating ratio of 5 years, in 2010 there is low proportion that the cost of sales bears to sales which is favorable to the company. Operating ratio of Asian paints shows a decreasing trend which is favorable except in2009.

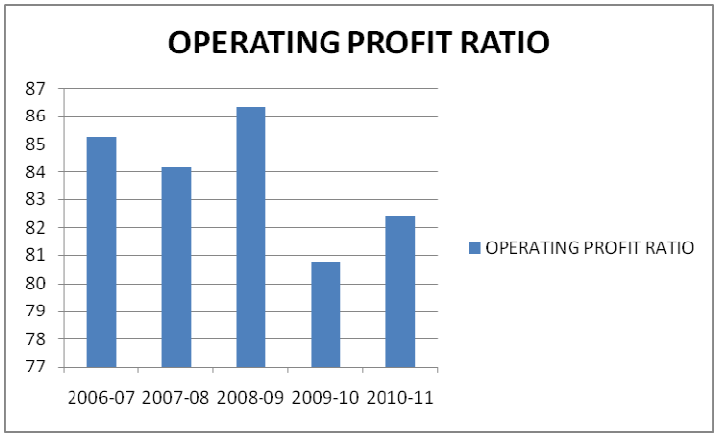


**Figure 1.2 Operating profit Ratios**

c. **EXPENSES RATIO**

These are calculated to ascertain the relationship that exists between operating expenses and volume of sales. Following ratios will help in analyzing the operating ratio**.**

1. **Material Consumed Ratio**

**Table 1.3 Material Consumed Ratios (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| 2006-07 | 1661.78 | 2953.30 | 56.26 |
| 2007-08 | 1969.47 | 3595.33 | 55.87 |
| 2008-09 | 2640.48 | 4510.12 | 59.55 |
| 2009-10 | 2835.40 | 5367.72 | 53.82 |
| 2010-11 | 3654.93 | 6606.02 | 56.32 |

These are calculated to ascertain the relationship that exists between material consumed and volume of sales. Material consumed ratio of previous 5 years shows a fluctuating trend.

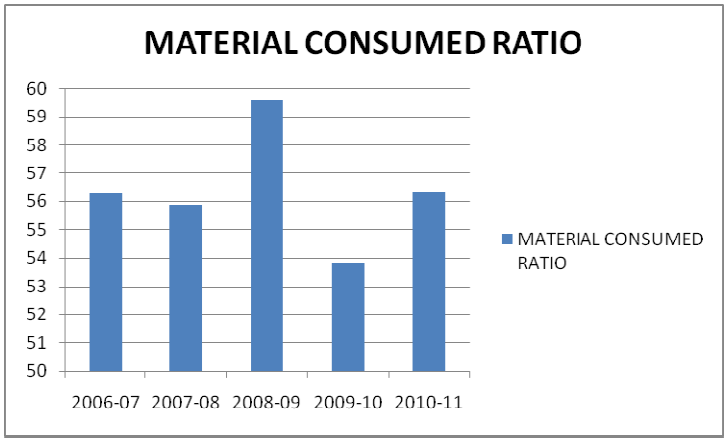


**Figure 1.3 Material Consumed Ratios**

2. **Conversion Cost Ratio**

$$= \frac{\text{Labour cost + Manufacturing expenses}}{\text{Net sales}} \times 100$$

**Table 1.4 Conversion Cost Ratios (Rupees in Crores)**

| Year | Labour Cost | Manufacturing Expenses | Net Sales | Ratio |
|---|---|---|---|---|
| **2006-07** | **155.60** | **31.53** | **2953.30** | **6.34** |
| **2007-08** | **195.54** | **39.26** | **3595.33** | **6.53** |
| **2008-09** | **239.77** | **40.45** | **4510.12** | **6.27** |
| **2009-10** | **262.73** | **52.30** | **5367.72** | **5.86** |
| **2010-11** | **302.34** | **61.46** | **6606.02** | **5.50** |

Source: Annual report of Asian paints ltd from the year 2006-2011

Conversion cost ratio is used to ascertain the relationship between labour and manufacturing expenses with net sales conversion cost ratio of previous 5 years shows a decreasing tendency which is favorable to the concern.

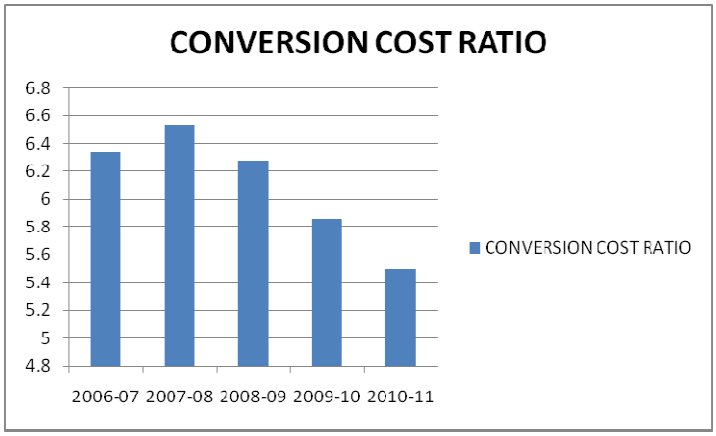


**Figure 1.4 Conversion Cost Ratio**

3. **Administration Expenses Ratio**

$$= \frac{\text{Administration expenses}}{\text{Net sales}} \times 100$$

**Table 1.5 Administration Expense Ratios (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| **2006-07** | **126.00** | **2953.30** | **4.27** |
| **2007-08** | **139.33** | **3595.33** | **3.87** |
| **2008-09** | **170.37** | **4510.12** | **3.17** |
| **2009-10** | **196.96** | **5367.72** | **3.66** |
| **2010-11** | **231.72** | **6606.02** | **3.50** |

Source: Annual report of Asian paints ltd from the year 2006-2011

Administration expense ratio is used to ascertain the relationship that exists between administration expenses and volume of sales. This ratio also shows a decreasing tendency and lays between 3.50 to 4.27 which are quite favorable to the concern.

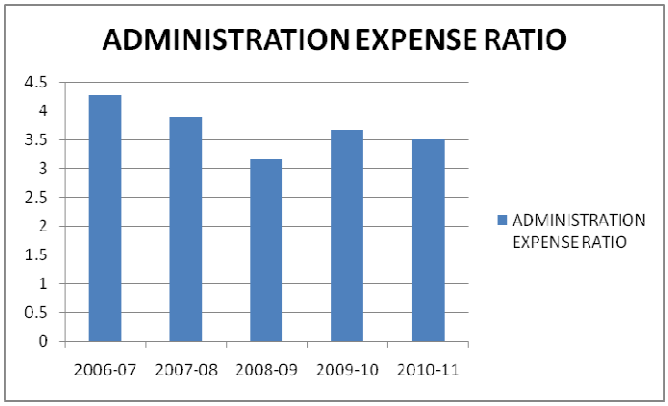


**Table 1.5 Administration Expense Ratios**

**4. Selling And Distribution Expenses Ratio**

$$= \frac{\text{Selling and Distribution}}{\text{Net Sales}} \times 100$$

**Table 1.6 Selling And Distribution Expense Ratio (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| 2006-07 | 508.88 | 2953.30 | 17.23 |
| 2007-08 | 646.58 | 3595.33 | 17.98 |
| 2008-09 | 779.34 | 4510.12 | 17.27 |
| 2009-10 | 940.34 | 5367.72 | 17.51 |
| 2010-11 | 1128.32 | 6606.02 | 17.08 |

Source: Annual report of Asian paints ltd from the year 2006-2011

This selling and distribution expense ratio is calculated to ascertain the relationship that exists between selling and distribution expenses and volume of sales. There is only a slight change in these ratios for the previous 5 years the ratio lies between 17.08 to 17.98.

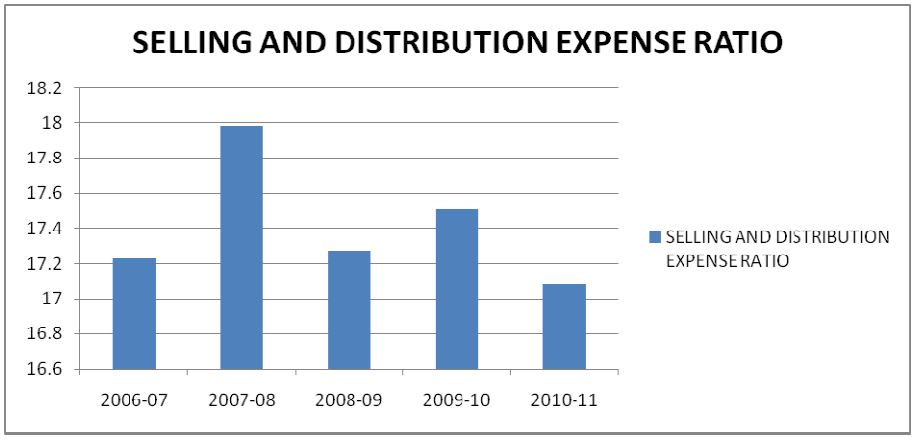


**Figure 1.6 Selling And Distribution Expense Ratio**

5. **Operating Profit Ratio**

This ratio establishes relationship between operating profit and sales. this ratio indicates the portion remaining out of every rupee worth of sales after all operating cost and expenses met.

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

**Table 1.7 Operating Profit Ratios (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| **2006-07** | **436.28** | **2953.30** | **14.77** |
| **2007-08** | **569.49** | **3595.33** | **15.83** |
| **2008-09** | **593.93** | **4510.12** | **13.16** |
| **2009-10** | **1032.96** | **5367.72** | **19.25** |
| **2010-11** | **1161.27** | **6606.02** | **17.58** |

Source: Annual report of Asian paints ltd from the year 2006-2011

When comparing operating ratio of 5 years we can find an increasing trend except in the year 2009. In case of operating profit ratio, higher the ratio, the better it is. This ratio indicates the position remaining out of every rupee worth of sales after all operating costs and expenses have been met. On 2010, ratio is higher which means higher profitability of Asian paints limited. On 2007 onwards operating profit ratio is increasing but in the year 2009 it was low which indicates lower profitability of the concern.

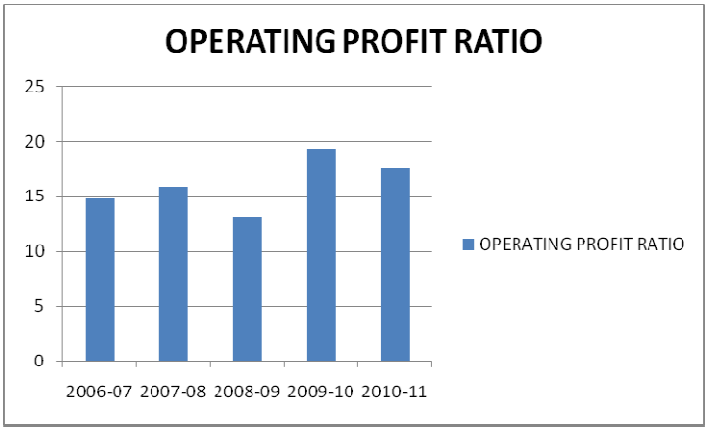


**Figure 1.7 Operating Profit Ratios**

6. **Net Profit Ratio**

This ratio explains per rupee profit generating capacity of sales. If the cost of sales lower, then the net profit will be higher and then divide with the net sales, the result is the sales efficiency. If lower is the net profit per rupee of sales, lower will be the sales efficiency. The concerns must try for achieving greater sales efficiency for maximizing RIO. The ratio is very useful to the proprietors and prospective investors because it reveals the overall profitability of the concern.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Net Sales}} \times 100$$

**Table 1.8 Net Profit Ratios (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| 2006-07 | 267.86 | 2953.30 | 9.06 |
| 2007-08 | 376.53 | 3595.33 | 10.47 |
| 2008-09 | 370.53 | 4510.12 | 8.21 |
| 2009-10 | 666.35 | 5367.72 | 12.41 |
| 2010-11 | 768.40 | 6606.02 | 11.63 |

Similar to gross profit and operating profit ratio, net profit ratio of Asian paints of previous 5 years was increasing except on 2009. In the year 2009 it was low which indicates a lower profitability higher the ratio, the better it is because it gives idea of improved efficiency of the concern. In the year 2010, there was higher profitability because the ratio is higher in that year.

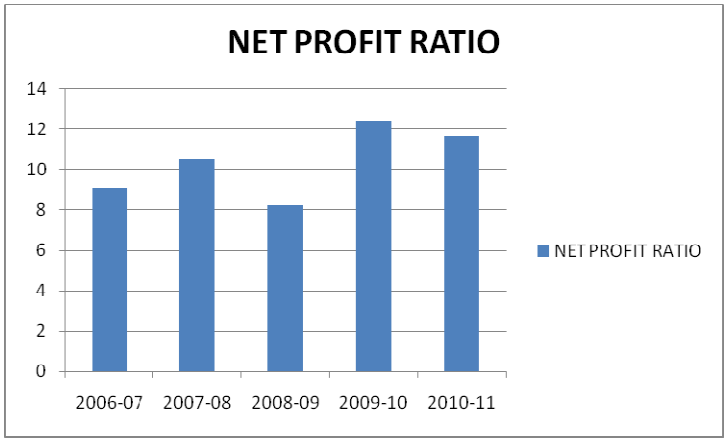


**Figure 1.8 Net Profit Ratios**

7. **Return on Capital Employed**

This ratio is an indicator of the earning capacity of the capital employed. This ratio is considered to be the most important ratio because it reflects the overall efficiency with which capital is used.

$$\text{Return on Capital Employed} = \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

**Table 1.9 Return on Capital Employed (Rupees in Crores)**

| Year | Operating Profit | Capital Employed | Ratio |
|---|---|---|---|
| 2006-07 | 436.28 | 851.68 | 51.23 |
| 2007-08 | 569.49 | 1005.90 | 56.61 |
| 2008-09 | 593.93 | 1159.76 | 51.21 |
| 2009-10 | 1032.96 | 1623.51 | 63.62 |
| 2010-11 | 1161.27 | 2039.45 | 56.94 |

This ratio is an indicator of the earning capacity of the capital employed in the business. On 2010, return on capital employed was higher which means on that year return yielded was more as compared to other years. It reflects the overall efficiency with which capital is used.

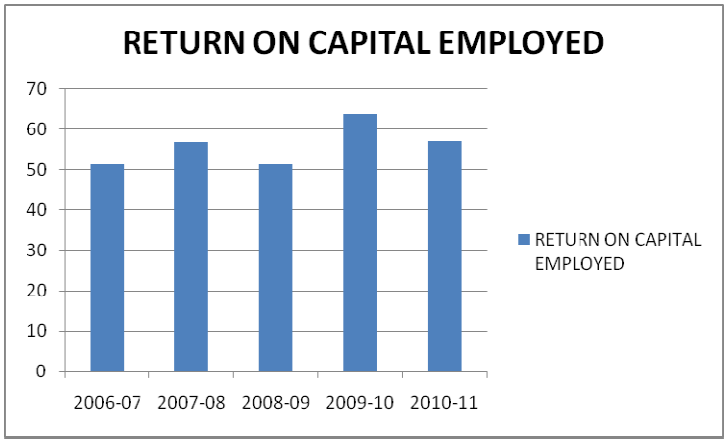


**Figure 1.9 Return on Capital Employed**

8. **Return On Shareholders Fund**

   When it is desired to work out the profitability of the company from the shareholders point of view, it can be calculated as follows:

   $$\text{Return On Shareholders Fund} = \frac{\text{Profit after Interest and Tax}}{\text{Shareholders Fund}} \times 100$$

**Table 1.10 Return on Shareholders Fund (Rupees in Crores)**

| Year | Profit | Shareholders Fund | Ratio |
|---|---|---|---|
| **2006-07** | **267.86** | **744.08** | **35.9** |
| **2007-08** | **376.53** | **928.5** | **40.55** |
| **2008-09** | **370.53** | **1094.47** | **33.85** |
| **2009-10** | **666.35** | **1557.22** | **42.79** |
| **2010-11** | **768.40** | **1975.32** | **38.90** |

Source: Annual report of Asian paints ltd from the year 2006-2011

When comparing 5 years return on share holder's fund, there is an increasing trend except in the year 2009. In case of return on share holder's fund, a high ratio is favorable to the concern. In the year 2009, return on share holders fund shows a lower extent to which profitability objective is being achieved. A low ratio is unfavorable to the concern.

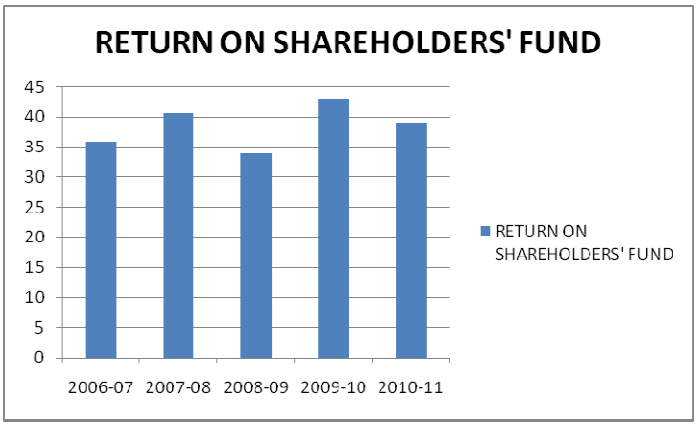


**Figure 1.10 Return on Shareholders Fund**

9. **Return On Total Asset**

   This ratio is calculated to measure the profit after tax against the amount invested in total asset to ascertain whether properly utilized or not.

$$\text{Return On Total Asset} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times 100$$

**Table 1.11 Return on Total Asset (Rupees in Crores)**

| Year | Gross Profit | Net Sales | Ratio |
|---|---|---|---|
| 2006-07 | 267.80 | 851.67 | 31.45 |
| 2007-08 | 376.53 | 1005.90 | 37.43 |
| 2008-09 | 370.53 | 1159.76 | 31.94 |
| 2009-10 | 666.35 | 1623.51 | 41.04 |
| 2010-11 | 768.40 | 2039.45 | 37.67 |

Higher the ratio the better it is. In the year 2010, it was 41.04 which is a high ratio as a low ratio; return on total assets ratio indicates whether the assets are being utilized properly or not. We can find using this ratio as in the year 2010, assets are being utilized properly.

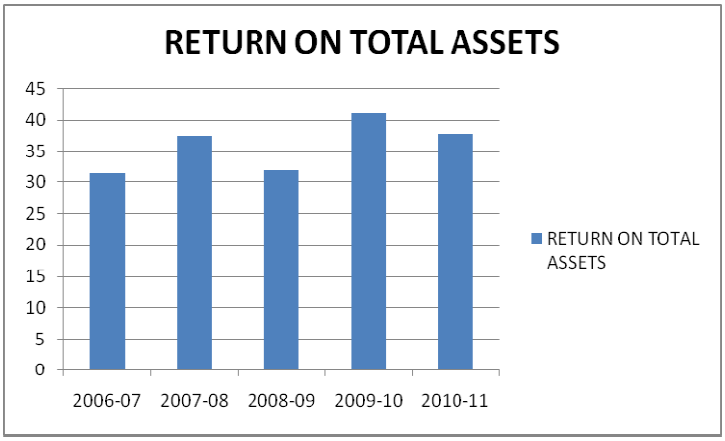


**Figure 1.11 Return on Total Asset**

**10. Dividend Payout Ratio**

This ratio indicates as to what proportion of earning per share has been used for paying dividend and what has been retained for ploughing back. This ratio is very important from shareholders' point of view as it tells him that if a company has used whole or substantially the whole of its earning for paying dividend and retained nothing for future growth and expansion purposes, then there will be very dim chances of capital appreciation in the price of shares of such company.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend per Equity Share}}{\text{EPS}}$$

**Table 1.12 Dividend Payout Ratios (Rupees in Crores)**

| Year | Dividend Per Equity Share | EPS | Ratio |
|---|---|---|---|
| 2006-07 | 14.84 | 28.36 | 52.36 |
| 2007-08 | 19.88 | 39.12 | 50.84 |
| 2008-09 | 20.47 | 37.78 | 54.19 |
| 2009-10 | 31.51 | 80.74 | 39.03 |
| 2010-11 | 37.22 | 80.81 | 46.06 |

Source: Annual report of Asian paints ltd from the year 2006-2011

While comparing payout ratio of 5 years, we find a low ratio on 2010 and a high ratio on 2009 as compared to other years on 2009, there will be very dim chances of capital appreciation in the price of shares of such company. But in the year 2010 having a low payout ratio will attract investors who are more interested in capital appreciation.

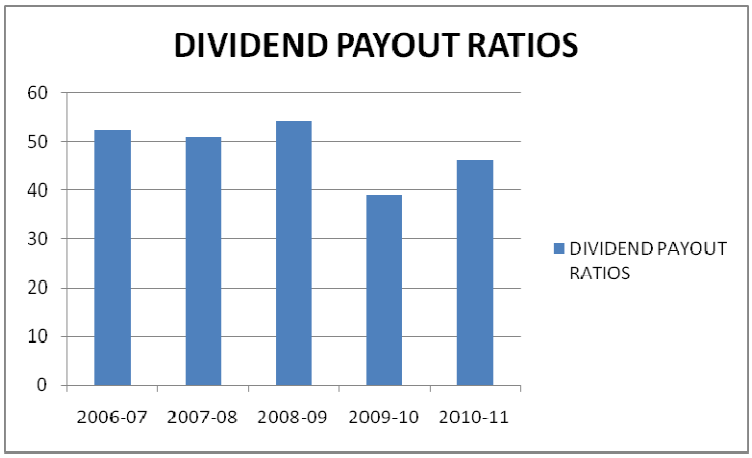


**Figure 1.12 Dividend Payout Ratios**

## 2. FINANCIAL RATIOS

These ratios are calculated to judge the financial position of the concern from long-term as well as short-term solvency point of view. These ratios can be divided into two broad categories.

**a. Liquidity Ratio**

**b. Stability Ratio**

### (i) LIQUIDITY RATIOS

Liquidity refers to the ability of the concern to meet its current obligations as and when these become due. The short term obligations are met by realizing amounts from current, floating or circulating assets. The current asset should either be liquid or near liquidity. If current assets can pay off current liabilities, then liquidity position will be satisfactory. On the other hand, if current liabilities may not be easily met out of current assets then liquidity position will be bad. To measure the liquidity of a firm, the following ratios can be calculated:

**a) Current Ratio (Working Capital Ratio)**

This is the most widely used ratio. It is a ratio of current assets to current liabilities. It shows a firm's ability to cover its current liabilities with its current assets.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table 1.13 Current Ratio (Rupees in Crores)**

| Year | Current Assets | Current Liabilities | Ratio |
|---|---|---|---|
| 2006-07 | 869.21 | 703.15 | 1.24 |
| 2007-08 | 1035.22 | 1017.28 | 1.02 |
| 2008-09 | 1172.36 | 1034.92 | 1.13 |
| 2009-10 | 1364.85 | 1533.21 | 0.89 |
| 2010-11 | 1729.79 | 1849.61 | 0.93 |

Generally current ratio of 2:1 is considered ideal for a concern. i.e., current assets should be twice of the current liabilities. But in the case of comparison of current ratios of the 5 years we can find a ratio less than 2. It will lead to an adverse effect on business operations and difficulty may be experienced in the payment of current liabilities and day to day operations of the business may suffer.

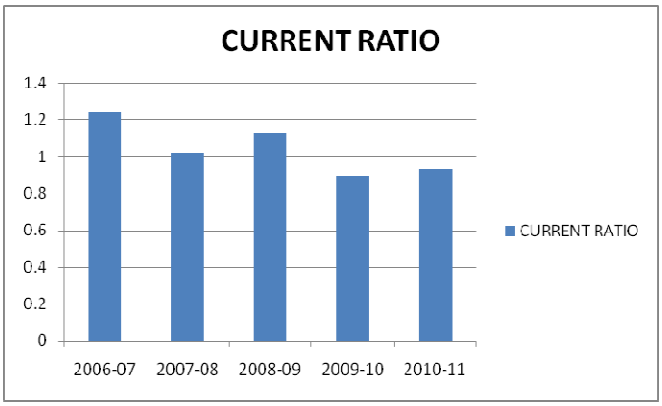


**Figure 1.13 Current Ratio**

**b) Quick Ratio**

It is the ratio of liquid assets to liquid liabilities. It shows a firm's ability to meet current liabilities with its most liquid (quick) assets. 1:1 ratio is considered ideal ratio for a concern because it is wise to keep the liquid assets at least equal to the liquid liabilities at all times. Liquid assets are those assets which are readily converted into cash and will include cash balances, bill receivable, sundry debtors and short term investments.

$$\text{Quick Ratio} = \frac{\text{Quick Asset}}{\text{Current Liabilities}}$$

**Table 1.14 Quick Ratios (Rupees in Crores)**

| Year | Quick Asset | Current Liabilities | Ratio |
|---|---|---|---|
| 2006-07 | 414 | 703.15 | .59 |
| 2007-08 | 478.12 | 1017.28 | .47 |
| 2008-09 | 600.25 | 1034.92 | .58 |
| 2009-10 | 567.28 | 1533.21 | .37 |
| 2010-11 | 628.87 | 1849.61 | .34 |

In the case of past 5 years quick ratio, there is a rate which is less than 1. Current liabilities are more than quick asset; the ideal ratio is 1:1, which means liquid asset is less than liquid liabilities.

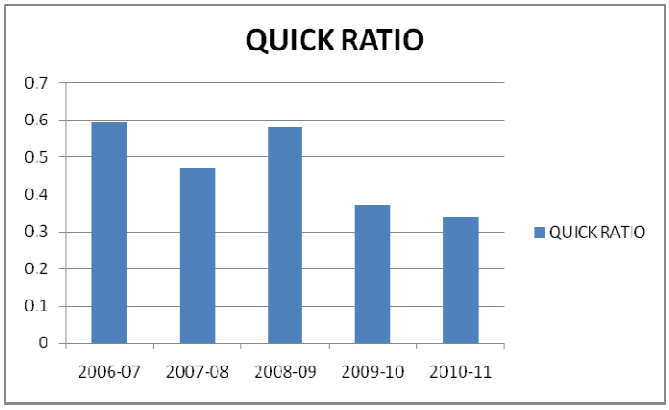


**Figure 1.14 Quick Ratios**

**c) Ratio of Inventory to Working Capital**

It is to ascertain that there is no overstocking the ratio of inventory to working capital should be calculated. As follows:

$$\text{Ratio of Inventory to Working Capital} = \frac{\text{Inventory}}{\text{Working capital}}$$

**Table 1.15 Ratio of Inventory to Working Capital (Rupees in Crores)**

| Year | Inventory | Working Capital | Ratio |
|---|---|---|---|
| 2006-07 | 434.07 | 166.06 | 2.61 |
| 2007-08 | 538.97 | 17.94 | 30.04 |
| 2008-09 | 546.71 | 137.44 | 3.97 |
| 2009-10 | 763.14 | 168.36 | 4.53 |
| 2010-11 | 1071.76 | 119.82 | 8.94 |

Source: Annual report of Asian paints ltd from the year 2006-2011

The desirable ratio is 1:1. In the past 5 years, amount of inventory is more than working capital the last 2 years working capital is negative which means current liabilities are more than current assets. Therefore this ratio is unfavourable to the concern.

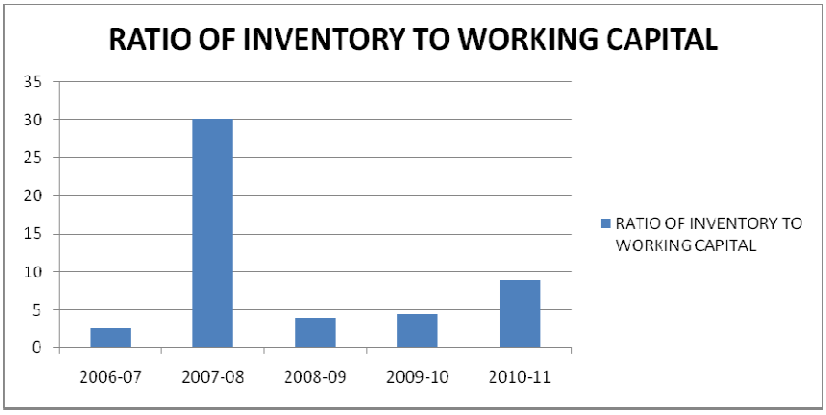


**Figure 1.15 Ratio of Inventory to Working Capital**

**(ii) STABILITY RATIOS**

These ratios help in ascertaining the long term solvency of a firm which depends on firm's adequate resources to meet its long term funds requirements, appropriate debit equity mix to raise long term funds and earnings to pay interest and installment of long term loans in time (i.e., coverage ratios).following ratios can be calculated for this purposes:

**a. Fixed Asset Ratio**

This ratios explains whether the firm has raised adequate long term funds to meet its fixed assets requirements and calculated as under

$$\text{Fixed Asset Ratio} = \frac{\text{Fixed asset}}{\text{Capital Employed}}$$

**Table 1.16 Fixed Asset Ratios (Rupees in Crores)**

| Year | Fixed Asset | Capital Employed | Ratio |
|---|---|---|---|
| **2006-07** | **334.91** | **851.68** | **.39** |
| **2007-08** | **428.83** | **1005.90** | **.42** |

| | | | |
|---|---|---|---|
| **2008-09** | **622.91** | **1159.76** | **.53** |
| **2009-10** | **707.46** | **1623.51** | **.43** |
| **2010-11** | **1057.19** | **2039.45** | **.52** |

Source: Annual report of Asian paints ltd from the year 2006-2011

This ratio gives an idea as to what part of the capital employed has been used in purchasing the fixed assets for the concern. If the ratio is less than one it is good for the concern. In the case of comparison of fixed asset ratio of Asian paints we can find the ratio is less than one for the past 5 years that means this ratio is favorable to the concern. This ratio is laid between .39 to .53. The ideal ratio is .67. In this case is less than .67 but it is good for the concern.

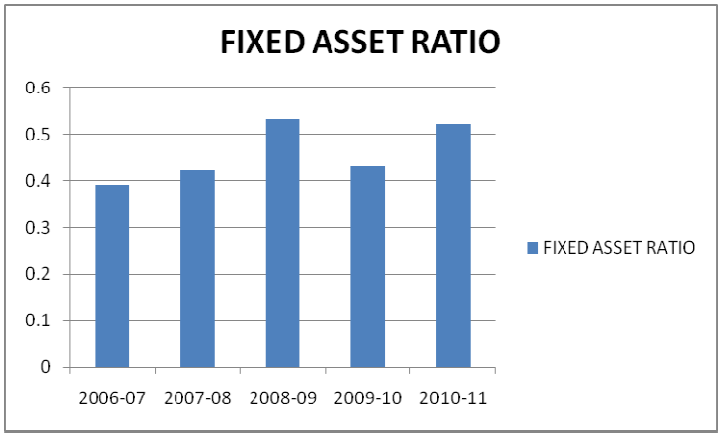


**Table 1.16 Fixed Asset Ratios**

**b. Ratio of Current Asset to Fixed Asset**

This ratio is differ from industry to industry and, therefore no standard can be laid down. A decrease in the ratio may mean that trading is slack or more mechanisation has been put through. An increase in the ratio may reveal that inventories and debtors have unduly increased or fixed assets have been intensively used. An increase in the ratio accompanied by increase in profit, indicates the business in expanding

$$\text{Ratio of Current Asset to Fixed Asset} = \frac{\text{Current Assets}}{\text{Fixed Assets}}$$

**Table 1.17 Ratio of Current Asset to Fixed Asset (Rupees in Crores)**

| Year | Fixed Asset | Current Asset | Ratio |
|---|---|---|---|
| 2006-07 | 334.91 | 869.21 | 2.59 |
| 2007-08 | 428.83 | 1035.22 | 2.41 |
| 2008-09 | 622.91 | 1172.36 | 1.88 |
| 2009-10 | 707.46 | 1364.85 | 1.93 |
| 2010-11 | 1057.19 | 1729.79 | 1.64 |

Source: Annual report of Asian paints ltd from the year 2006-2011

This ratio will differ from industry to industry. While we compare the ratio of 5 years we can find a decreasing trend in this ratio. Ratio was decreasing from 2.59 on 2007 to 1.64 on 2011. A decrease in ratio may mean that trading is slack or more mechanization has been put through.

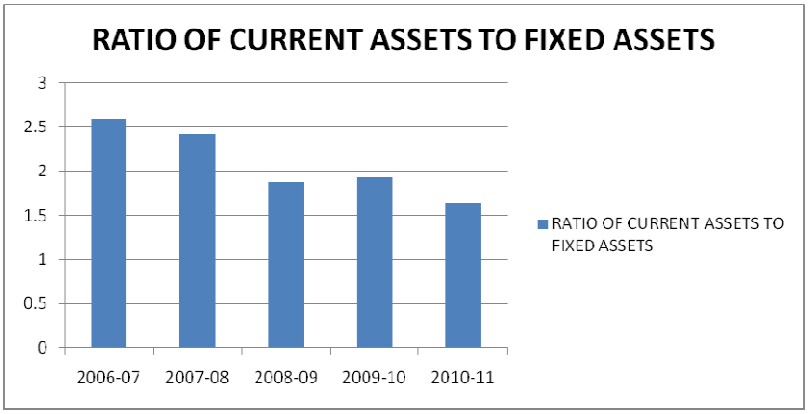


**Figure 1.17 Ratio of Current Asset to Fixed Asset**

3. **TURNOVER RATIOS**

Funds are invested in various assets in business to make sales and earn profit. The efficiency with which assets are managed directly affects the volume of sales. The better the management of assets, the larger is the amount of sales and the profits. Activity ratios measure the efficiency or effectiveness with which a firm manages its resources or assets. These ratios are also called **turnover ratios**, because they indicate the speed with which assets are converted or turned over into sales. Depending upon the purpose a number of turnover ratios can be calculated as follows:

a. **Sales to Capital Employed**

This ratio shows the efficiency of capital employed in the business by computing how many times capital employed is turned over in a stated period.

$$\text{Sales to Capital Employed} = \frac{\text{Sales}}{\text{Capital Employed}}$$

**Table 1.18 Sales to capital Employed (Rupees in Crores)**

| Year | Sales | Capital Employed | Ratio |
|---|---|---|---|
| **2006-07** | **2953.30** | **851.68** | **3.46** |
| **2007-08** | **3595.33** | **1005.90** | **3.57** |
| **2008-09** | **4510.12** | **1159.76** | **3.88** |
| **2009-10** | **5367.72** | **1623.51** | **3.30** |
| **2010-11** | **6606.02** | **2039.45** | **3.23** |

Source: Annual report of Asian paints ltd from the year 2006-2011

This ratio shows the efficiency of capital employed in the business by computing how many times capital employed is turned over in a stated period ratio of sales to capital employed to the past 5 years is late between 3 to 4. The

higher the ratio, the greater are the profits. A low capital turnover ratio should be taken to mean that sufficient sales are not being made and profits are lower.

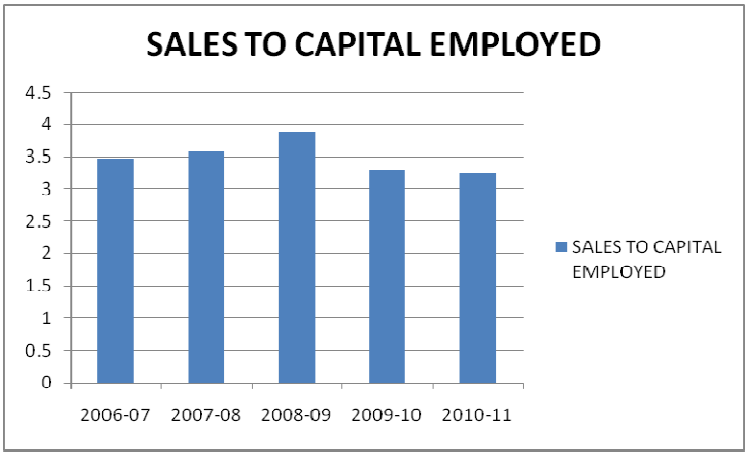


**Table 1.18 Sales to capital Employed**

**b. Sales to Fixed asset**

This ratio measures the efficiency of the assets used. The efficient use of assets will generate greater sales per rupee invested in all the assets of the concern. The efficient use of the asset will result in low sales volume coupled with higher overhead charges and under utilization of the available capacity. Hence the management must strive for using total resources at optimum level, to achieve higher RIO. This ratio expresses the number of times fixed assets are being turned over in stated period.

$$\text{Sales to Fixed asset} = \frac{\text{Sales}}{\text{Fixed Asset}}$$

**Table 1.19 Sales to Fixed Asset Ratio (Rupees in Crores)**

| Year | Sales | Fixed Asset | Ratio |
|---|---|---|---|
| 2006-07 | 2953.30 | 334.91 | 8.81 |
| 2007-08 | 3595.33 | 428.83 | 8.38 |
| 2008-09 | 4510.12 | 622.91 | 7.24 |

| | | | |
|---|---|---|---|
| **2009-10** | **5367.72** | **707.46** | **7.58** |
| **2010-11** | **6606.02** | **1057.19** | **6.24** |

Source: Annual report of Asian paints ltd from the year 2006-2011

This ratio measures the efficiency of the assets use. When comparing sales to fixed asset ratio for the past 5 years we can find a decreasing trend. Ratio was decreased from 8.81 in the year 2007 to 6.24 in the year 2011. Higher the ratio better is the performance. On the other hand a low ratio indicates that fixed assets are not being efficiently utilized.

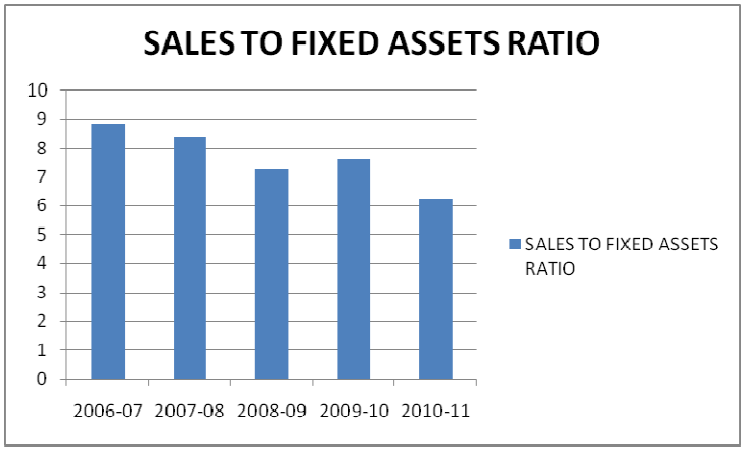


**Figure 1.19 Sales to Fixed Asset Ratio**

**c. Sales to Working Capital**

This ratio shows the number of times working capital is turnover in a stated period. The higher the ratio, the lower is the investment in working capital and the greater are the profits.

$$\text{Sales to Working Capital} = \frac{\text{Sales}}{\text{Net working capital}}$$

**Table 1.20 Sales to Working Capital (Rupees in Crores)**

| Year | Sales | Working Capital | Ratio |
|---|---|---|---|
| **2006-07** | **2953.30** | **166.06** | **17.78** |
| **2007-08** | **3595.33** | **17.94** | **200** |

| | | | |
|---|---|---|---|
| **2008-09** | **4510.12** | **137.44** | **32.81** |
| **2009-10** | **5367.72** | **168.36** | **31.88** |
| **2010-11** | **6606.02** | **119.82** | **55.13** |

Source: Annual report of Asian paints ltd from the year 2006-2011

This ratio shows the number of times working capital is turned-over in a stated period. Ratio of sales to working capital is fluctuating during the past 5 years. For the last year 2011 and 2010 there was negative figure in networking capital because the amount of current liabilities is more than the amount of current assets. In the year 2008 the ratio was 200 because working capital is a very lower amount as compared to sales.

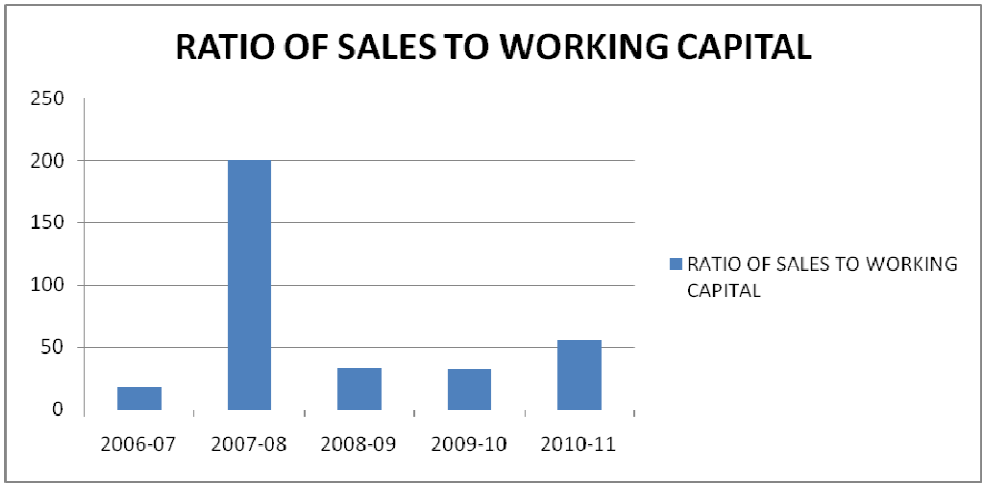


**Figure 1.20 Sales to Working Capital**

**d. Total Asset Turnover Ratio**

This ratio is calculated by dividing the net sales by the value of total assets. A high ratio is an indicator of over trading of total assets while a low ratio reveals idle capacity. The traditional standard for the ratio is two types.

$$\text{Total Asset Turnover Ratio} = \frac{\text{Sale}}{\text{Total Asset}}$$

**Table 1.21 Total Asset Turnover Ratios (Rupees in Crores)**

| YEAR | SALES | TOTAL ASSET | RATIO |
|---|---|---|---|
| 2006-07 | 2953.30 | 851.68 | 3.46 |
| 2007-08 | 3595.33 | 1005.90 | 3.57 |
| 2008-09 | 4510.12 | 1159.76 | 3.88 |
| 2009-10 | 5367.72 | 1623.51 | 3.30 |
| 2010-11 | 6606.02 | 2039.45 | 3.23 |

Source: Annual report of Asian paints ltd from the year 2006-2011

When comparing total assets turnover ratio the ratio was above 3. A high ratio is an indicator of over-trading of total assets; the traditional standard for the ratio is 2 times. But in this case sales is more than 2 times of the amount of total assets. There are no chances of idle capacity because there is no lower ratio in any of the year. The ratio of total assets turnover ratio is between 3 to 4 for the past 5 years.

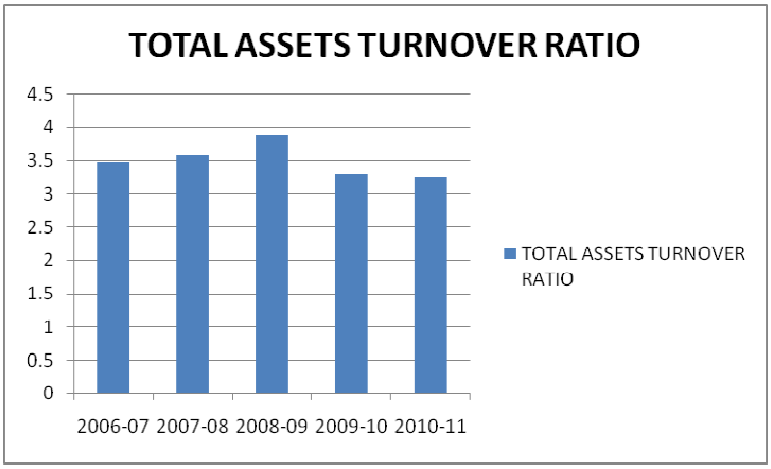


**Figure 1.21 Total Asset Turnover Ratios**

# CHAPTER 4 – FINDINGS, CONCLUSION AND SUGGESTIONS

## FINDINGS

The various findings and conclusions of the study Are stated in the last chapter itself. However it is considered suitable to provide a summary of these findings and conclusion.

Various ratios are used for measuring the profitability position, solvency position and the effectiveness or performance level of the concern profitability ratios are used for measuring the profitability position, financial ratios are used for measuring solvency position and turnover ratio for measuring effectiveness of the concern.

## PROFITABILITY RATIOS

- Gross profit ratio of the concern shows a better position in all years except in the year 2009
- In case of operating ratio a low ratio is favorable to the concern. Here we can find a lower ratio in 2010 and higher ratio n 2009, that means operating ratio shows a better position in all years except 2009
- From the analysis of operating profit ratio we can find an increasing trend except in the 2009. On 2007 onwards operating profit ratio is increasing but in the year 2009 if was low which indicates lower profit ability of the concern. In other years operating profit ratio is higher.
- Similar to gross profit and operating profit ratio net profit ratio of Asian paints of previous 5 years was increasing except on 2009 in the year 2010, there was higher profitability.
- Return on capital employed ratio is indicating a better earning capacity of the capital employed in the business. It was higher in all years except in the year 2009.
- From the analysis of the return on shareholder's few can find an increasing trend in all years except in the year 2009. The higher the ratio the better it is.

- Using the return on total assets ratio we can find a fluctuating trend in the previous 5 years of the concern. A higher ratio shows a better position relating to the utilization of assets.
- Material consumed ratio shows a fluctuating tendency. This ratio lies between 53.82 to 59.55
- Conversion cost ratio is sowing a decreasing tendency from 6.34% to 5.505
- Administration expenses ratio also shows a decreasing tendency for the past 5 years.
- Selling & distribution expenses ratio also shows a decreasing tendency, but there is only a slight change from year to ear ratio is lies between 17.98 to 17.08
- Decreasing tendency of expenses ratio is favorable to the concern. These ratios show the relationship between operating expenses and volume of sales from the analysis of payout ratio we can find a low ratio on 2010 and a higher ratio on 2009 as compared to other years.

**FINANCIAL RATIOS**

- The ratios used for measuring short term solvency position of the concern is liquidity ratio and the ratios used for measuring long term solvency position of the concern is known as stability ratios.

**LIQUIDITY RATIOS**

- Current ratio of the concern lies between .93 and 1.24 it was showing a decreasing tendency. The standard for current ratio is 2:1 that means here we can find current ratios which is less than 2.
- In the case of past 5 years quick ratio there is a rare which is less than 1. The standard norm for quick ratio is1:1
- By analyzing ratio of inventory to working capital we can find that , in the past 5 years amount of inventory is more than the working capital and the desirable ratio is1:1

**STABILITY RATIO**

- By analyzing fixed asset ratio we can find the ratio is less than one for the past 5 years that means this ratio is favorable to the concern. The ideal fixed asset ratio is 0.67
- While we compare ratio of current assets to fixed assets we can find a decreasing trend in this ratio.

**TURNOVER RATIO**

- When comparing sales to fixed asset ratio for the past 5 years we can find a decreasing trend. a low ratio indicates assets are not being efficiently utilized.
- Sales to working capital ratio are fluctuating during the past 5 years.
- When comparing total asset turnover ratio, the ratio was above 3. The tradition standard for the ratio is 2 times. The ratio of total assets turnover is between 3 to 4 for the past 5 years.
- Ratio of sales to capital employed for the past 5 years laid between 3 to 4. The higher the ratio, the greater are the profit.

**CONCLUSION**

Asian Paints Limited is an India-based colour and paint company. The company, along with its subsidiaries, has operations in 17 countries globally with 23 paint manufacturing facilities servicing consumers in 65 countries through Berger international, SCIB paints, Apco coatings and Tubman's. The products of the company include ancillaries, automotive, decorative paints and industrial paints.

Asian Paints is India's largest paint company and Asia's third largest paint company. The group has an enviable reputation in the corporate world for professionalism, fast track growth and building shareholder equity. Asian Paints operates in 17 countries and has 24 manufacturing facilities in the world servicing consumer in over 65 countries.

Various ratios are used for measuring profitability and solvency position and effectiveness or performance level of the concern. Profitability ratios are used

for measuring the profitability position; financial ratios are used for measuring solvency position and turnover ratios for measuring the effectiveness of the concern. On the basis of analysis of various ratios it can be said that company's profitability position is good. Financial ratios in certain areas are not satisfactory and the activity ratios are not much satisfactory. The company's liquidity position is weak so the management efforts must be directed in effective utilization of working capital in order to have a high growth rate.

**SUGGESTIONS**

On the basis of analysis & findings, it can be said that the company's profitability position is good. Financial ratios in certain areas are not much satisfactory and the activity ratios are just satisfactory. So the following recommendations are made

a) Gross profit ratio, operating profit ratio and net profit ratio are showing a better profitability position at the sales of the firm. It will lead to better turnover.
b) Management effort must be directed in effective utilization of the working capital or decreasing the working capital as the working capital ratio is not satisfactory.
c) Current ratio less than 2, it will lead to an adverse effect on business operations and difficulty may be experienced in the payment of current liabilities and day to day operations of the business may suffer. So the management should make effort to increase the current asset or decrease the current liabilities until the ideal ratio is got.
d) Here liquid asset is less than liquid liabilities and the management also makes effort to increase the liquid assets unless the liquid position of the concern is suffered.
e) Solvency position of the concern is not satisfactory management take steps to improve the solvency position.
f) Ratio of current assets to fixed assets showing a decreasing trend and a decreasing the ratio may mean that trading is lack or more mechanization has been put through management should take effort to improve this ratio.

g) A low sale to fixed ratio indicates that fixed assets are not being efficiently utilized, so the management should take necessary steps to the effective utilization of fixed assets.

h) A high total assets turnover ratio is an indicator of trading of total asset management may take steps to slightly reduce the over trading of total assets.

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