REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X
VOLUME - 7 | ISSUE - 11 | AUGUST - 2018

LEVERAGE ANALYSIS OF SELECT PAINT COMPANIES IN INDIA

Merajud Din Drangay[1] and Dr. N. Periyasami[2]
[1]Ph. D Research Scholar, Department of Commerce, Annamalai University.
[2]Associate Professor, Department of Commerce, Annamalai University Tamil Nadu.

ABSTRACT

The Indian economy is improved in which the paint industry also play the major role, which has witnessed double-digit growth in economy. After China India is the 2nd largest producer of paint in Asia. The availability of low cost manpower and occurrence of abundant reserves make India as a competitive in the worldwide. Finance is a life blood of any business. It is one of the basics of all kinds of activities in the business. The Top Level Management of company is interested in evaluating every activity of the firm. For the purpose of to find out the requirement of long term needs to meet its long term debt obligation. Leverage or long term funds indicate the proportion between owner's funds and outsider's fund. The main aim of this study is to analyses the long term solvency position of select paint companies in India. For this study, the secondary data have been used and these data have analyzed by using Mean and SD. This study is attempted to analyze leverage position of Asian Paint, Nerolac Paint and Shalimar Paint companies in India.

KEY WORD: *Solvency, Debt Equity Ratio, Proprietary Ratio, Total Debt Ratio.*

INTRODUCTION

The Indian economy is the fourth largest economy in the world by purchasing power parity with an estimated GDP of approximately USD 8.721 trillion in 2016. India's GDP will continue to expand at the fastest pace among major economies, with the growth of 7.6 percent in 2016-17. India's economy has benefited from the large terms of trade gain triggered by lower commodity prices, and inflation has declined more than expected. The Indian paint industry has been growing continuously over the last decade. The growth of paint industry has been consistent with the GDP growth rate and in some years even higher. Over the past few years, the Indian paint market has significantly grown and caught the attention of many international players. The country continues to enjoy a healthy growth rate compared to other economies, backed by the increasing level of disposable income, and demand from infrastructure, industrial and automotive sectors. Indian paints industry by value and volume, is expected to grow at a CAGR (Compounded Annual Growth Rate) of around 12 percent during 2016-17 to 2021-22 in value terms.

STATEMENT OF THE PROBLEM

Finance is regarded as a life blood of a business. Every firm measures its long term solvency (leverage) position. If organization maintains high leverage position it indicates the sound long term solvency position and to meet out long term obligation. And also it indicates firm's ability to meet the fixed interest and its costs and repayment schedules associated with its long term borrowings. If the firm does not maintain long term solvency position or leverage position properly, they will consequence to meet out it long term finance obligation. Leverage or long term fund indicates the proportion of owners fund and non-owners funds. This study analyses the long term solvency (leverage) position of selected paint companies in India.

OBJECTIVE OF THE STUDY

- To study the leverage position of selected paint companies in India
- To analyze the long- term financial strengths of companies.
- To offer suggestion to improve the leverage management of the companies by this study

REVIEW OF LITERATURE

M. Krishna Moorthi , Dr. M. Ramesh , N. Bhanupriya (2012), from the analysis have found and concluded that Debt equity ratio of Bhushan and Visa is more than 2:1 ratio, it showed the restriction in borrowing funds, and Bhushan is having highest total debt ratio from others, they need to decrease their total debt position. SAIL has been in sound position in proprietary ratio from other companies. Bhushan, JSW & VISA is below the average of 60%, they need to increase their position. From the ANOVA result it is concluded that companies belonging to the same industry follows a different debt equity position during the study period.

V. Palanivel, Dr. C. Manikanda Muthukumarn (2013), conducted a study on long term solvency of Dharmapuri District Central Co-Operative Bank Ltd. It reveals that over all short term position of the bank is very low. The trend analysis shows that future debts will increase so banker want to reduce the borrowings or debts to smooth running to the bank. It is suggested that bank shareholder or creditor do not having safety at present and in future will have greater risk in the bank to the owners.

Mily Williams (2014) conducted Study on Short-Term And Long-Term Solvency Of Nestle Pvt. Ltd. He found that the company short-term liquidity position was not satisfactory. And the long term solvency position and the operational efficiency of the firm are quite good. Steps need to be taken to stabilize the overall financial position of the company.

METHODOLOGY

The study is analytical in nature based on secondary data. For present study a sample of three Paints companies has been taken by using convenience sampling for the period of five years i.e. 2012 to 2017 .The Sample companies are Asian Paints ltd. Nerolac Paints ltd. and Shalimar Paint Company. The data have been collected from secondary sources viz., annual reports and accounts of selected companies and financial journals.

ANALYSIS AND INTERPRETATION

Debt equity ratio

Debt to equity ratio is a long term solvency ratio that shows the soundness of long-term financial position of a company. It shows the relation between the portion of assets financed by creditors and the part of assets financed by stockholders. As the debt to equity ratio depsits the relationship between external equity (liabilities) and internal equity (stockholder’s equity), it is also known as “external-internal equity ratio”. The debt equity ratio of the sample companies is shown in table 1.

Table – 1
Debt equity ratio
(Ratio in Times)

Year	Asian Paint	Nerolac Paint	Shalimar Paint
2012-13	0.09	0.11	0.23
2013-14	0.07	0.10	0.32

2014-15	0.06	0.09	0.42
2015-16	0.05	0.02	0.63
2016-17	0.05	0.04	0.54
Mean	**0.06**	**0.07**	**0.42**
SD	**0.01**	**0.03**	**0.16**
CV %	**3.82**	**1.81**	**2.65**

Source: Computed from select companies annual reports

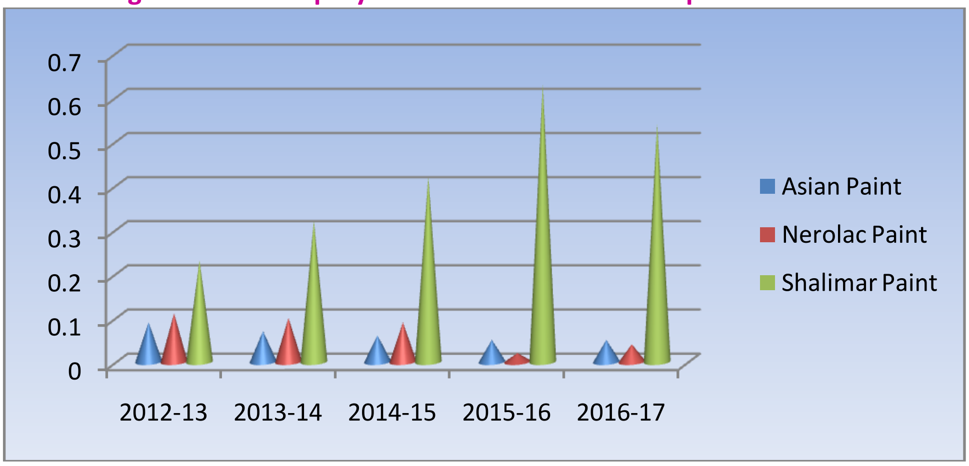
Interpretation:

Table 1 shows the Debt Equity ratio of the three sample paint companies in India from the year 2012-13 to 2016-17. For Asian Paint the Debt Equity ratio of the year 2012-13 is 0.09. It is observed that in the year 2013-14, 2014-15, 2015-16 & 2016-17 decreasing trend 0.07, 0.06, 0.05 & 0.05 can be seen in the Debt Equity Ratio for Asian Paint. The maximum Debt Equity ratio is 0.09 in the year 2007-08 and the lowest 0.05 in the year 2015-16 & 2016-17.

The maximum Debt Equity ratio is 0.11 in the year 2012-13 and the lowest is 0.02 in the year 2015-16.For the Nerolac paint in the year 2012-13 the debt equity ratio is 0.11. But in next three years 2013-14, 2014-15 & 2015-16, it shows the decrease (0.10, 0.09 & 0.02) and the last year shows little bit increase in debt equity ratio by 0.04 of Nerolac paint.

For the Shalimar paint company the Debt Equity ratio is 0.23 in the year 2012-13. In the year 2013-14, 2014-15 & 2015-16 it shows an increasing trend of 0.32, 0.42 & 0.63, but again in the year 2016-17 the ratio comes down to 0.54. The mean value of Debt equity ratio for Shalimar paint is 0.42.

Figure –1 Debt equity ratio for Select Paint Companies



Source: Table 1

Total Debt Ratio

Total debt to total assets is a leverage ratio that indicates the total amount of debt relative to assets. It is the evaluation of the company's assets that are financed by debt, rather than equity. The higher the ratio, the higher the degree of leverage and consequently higher the financial risk, the total debt to total assets is a broad ratio that includes long-term and short-term debt as well as all assets – tangible and intangible. The details relating to total debt ratio can be seen from table 2.

Table – 2
Total Debt Ratio
(Ratio in Times)

Year	Asian Paint	Nerolac Paint	Shalimar Paint
2013	0.46	0.38	0.79
2014	0.46	0.37	0.81
2015	0.42	0.33	0.84
2016	0.32	0.22	0.83
2017	0.32	0.22	0.85
Mean	**0.39**	**0.30**	**0.82**
SD	**0.07**	**0.07**	**0.02**
CV %	**5.55**	**3.85**	**34.21**

Source: Computed from select companies annual reports

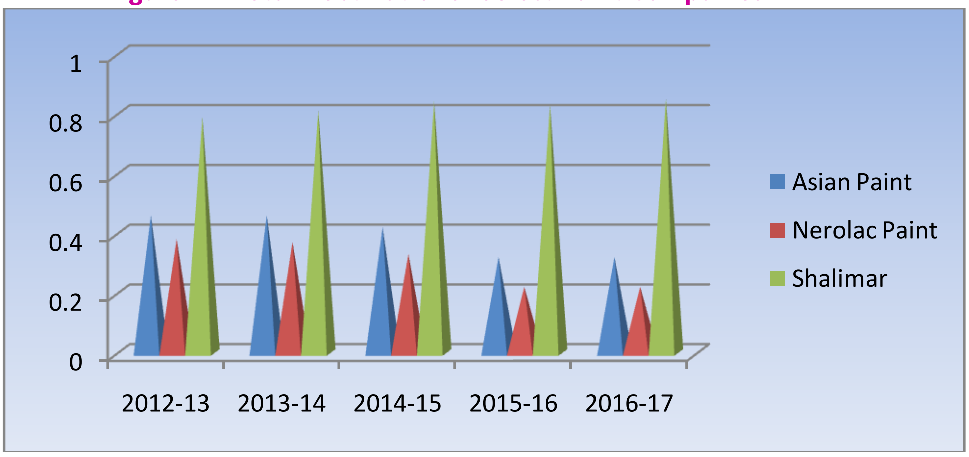
Interpretation:

Table 2 shows the Total Debt Ratio of the three sample paint companies in India from the year 2012-13 to 2016-17. For Asian Paint the ratio of the year 2012-13 & 2013-14 is 0.46. It is observed that in the year 2014-15, 2015-16 & 2016-17 decreasing trend 0.42, 0.32 & 0.32 can be seen in the Total Debt Ratio of AP. The maximum Total Debt Ratio is 0.46 in the year 2012-13 and the lowest 0.32 in the year 2015-16 & 2016-17.

For the Nerolac paint company, the Total Debt Ratio is 0.38 in the year 2012-13. In the next four consecutive years 2013-14, 2014-15, 2015-16 & 2016-17 it shows decreasing trend of 0.37, 0.33, 0.22 & 0.22. The mean value of Total Debt Ratio of Nerolac paint is 0.30

The maximum Total Debt ratio is 0.85 in the year 2016-17 and the lowest is 0.79 in the year 2012-13.For the Shalimar paint in the year 2012-13 the Total Debt ratio is 0.79. In the years 2013-14 & 2014-15 it shows the increase of (0.81 & 0.84), but in the year 2015-16 it shows decreasing trend of 0.83, and again in the last year it shows an increase of Total Debt ratio by 0.85.

Figure – 2 Total Debt Ratio for Select Paint Companies



Source: Table - 2

Proprietary Ratio

The proprietary ratio is the ratio of shareholders equity to total assets, and as such provides a rough estimate of the amount of capitalization currently used to support a business. If the ratio is high, this indicates that a company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary.

Conversely, a low ratio indicates that a business may be making use of too much debt or trade payables, rather than equity, to support operations. Table 3 shows proprietary ratio.

Table – 3
Proprietary Ratio
(Ratio in Times)

Year	Asian Paint	Nerolac Paint	Shalimar Paint
2013	0.53	0.62	0.20
2014	0.53	0.63	0.19
2015	0.58	0.68	0.16
2016	0.67	0.78	0.17
2017	0.68	0.78	0.15
Mean	**0.59**	**0.69**	**0.17**
SD	**0.07**	**0.07**	**0.02**
CV %	**8.16**	**8.92**	**8.39**

Source: Computed from select companies annual reports

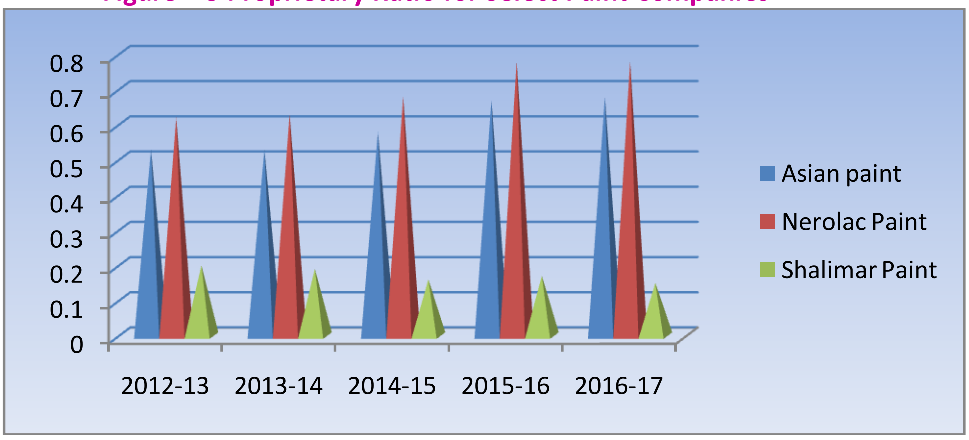
Interpretation:

The table 3 reveals the proprietary ratio of three sample paint companies in Indian namely Asian Paint, Nerolac Paint and Shalimar Paint for five years from 2012-13 to 2016-17. The proprietary ratio of AP is 0.53 in 2012-13 & 2013-14, after the year 2013-14 a continuous increase can be observed during the year 2014-15 to 2016-17 by 0.58, 0.67 & 0.68. The maximum proprietary ratio of Asian paint is 0.68 in 2016-17 and the lowest is 0.53 in the year 2012-13 & 2013-14.

The maximum proprietary ratio is 0.78 in the year 2015-16 & 2016-17 and the lowest is 0.62 in the year 2012-13.For the Nerolac paint in the year 2012-13 the proprietary ratio is 0.62. In the year 2013-14, 2014-15, 2015-16 & 2016-17 an increasing trend of 0.63, 0.68, 0.78 & 0.78 is observed.

For the Shalimar paint company the proprietary ratio in the year 2012-13is 0.20, but it in the year 2013-14 & 2014-15 this ratio is decreased to 0.19 & 0.16 respectively. In the year 2015-16, it shows a little bit improvement of 0.17 in this ratio, but again in the year 2016-17 it comes down to 0.15. The overall mean value of this ratio is 0.17, and the SD is 0.02 of Shalimar Paint Company.

Figure – 3 Proprietary Ratio for Select Paint Companies



Source: Table 3

Fixed Assets Ratio

The fixed asset ratio is used by analysts to measure operating performance of a business. This ratio specifically measures a company's ability to generate net sales from fixed-asset investments, namely property, plant and equipment (PP&E), net of depreciation. A higher fixed-asset turnover ratio indicates that a company has more effectively utilized investment in fixed assets to generate revenue. The fixed asset ratio of all the three companies is given in table 4.

Table – 4
Fixed Assets Ratio
(Ratio in Times)

Year	Asian Paint	Nerolac Paint	Shalimar Paint
2013	0.65	0.63	0.43
2014	0.53	0.61	0.50
2015	0.47	0.54	0.81
2016	0.42	0.38	0.68
2017	0.37	0.37	0.82
Mean	**0.48**	**0.50**	**0.64**
SD	**0.10**	**0.12**	**0.17**
CV %	**4.50**	**4.07**	**3.64**

Source: Computed from select companies annual reports

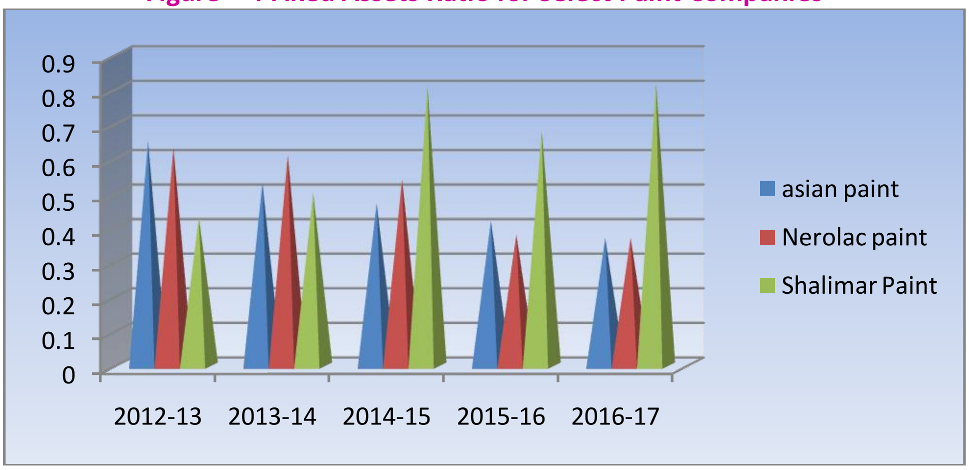
Interpretation:

The above table 4 shows the Fixed Assets ratio of three paint companies in India for 5 years 2012-13 to 2016-17. For Asian Paint the Fixed Assets ratio is 0.65 in the year 2012-13, in the next four consecutive years 2013-14, 2014-15, 2015-16 & 2016-17 there is a decrease in this ratio is 0.53, 0.47, 0.42 & 0.37 respectively. The maximum value of Fixed Assets ratio is 0.65 in 2012-13 and the minimum is 0.37 in 2016-17. The CV of Asian Paint is 4.50 and the mean value is 0.48 of the whole study period.

For Nerolac Paint the Fixed Assets ratio is highest 0.63 in the year 2012-13 and the lowest 0.37 in the year 2016-17. The Fixed Assets ratio is 0.63 in 2012-13 and but in next four consecutive years 2013-14, 2014-15, 2015-16 & 2016-17 the Fixed Assets ratio comes down to 0.61, 0.54, 0.38 & 0.37 respectively. The mean value of this ratio is 0.50 and SD is 0.12 during the 5 years study period.

The maximum proprietary ratio is 0.82 in the year 2016-17 and the lowest is 0.43 in the year 2012-13.For the Shalimar paint in the year 2012-13 the fixed asset ratio is (0.43). In the year 2013-14 & 2014-15 its shows an increasing trend of 0.50 & 0.81, but 2015-16 it is decreased by 0.68, again in the year 2016-17 an increasing trend of 0.82 is observed.

Figure – 4 Fixed Assets Ratio for Select Paint Companies



Source: Table 4

FINDINGS OF THE STUDY

- Gradual increase in their debt equity position of Shalimar showed highest mean value is 0.42 and lowest mean value for Asian paint is 0.06 and also indicates that the highest S.D is 0.16 for Shalimar and lowest S.D is 0.0.01 for Asian paint
- There has been moderate fluctuation in their total debt ratio. Shalimar is having highest mean value of 0.82 and lowest mean value of debt ratio is 0.30 for Nerolac, and also showed highest S.D for Asian paint & Nerolac paint as 0.07 and lowest S.D as 0.02 for Shalimar paint.
- There has been increase in their proprietary ratio. From 2012-13 there is increase in their proprietary ratio of all the sample companies. The highest mean value of proprietary ratio for Nerolac paint is 0.69 and lowest mean value of proprietary ratio is 0.17 for Shalimar paint and also the highest value of C.V is 8.92 for Nerolac paint and lowest C.V is 8.39 for Shalimar paint
- Gradual increase and decrease in their fixed asset ratio. The highest mean value of fixed asset ratio is 0.64 for Shalimar paint and lowest mean value of fixed asset ratio for Asian paint is 0.48 and also showed the highest S.D for Shalimar paint is 0.17 and lowest S.D is 0.10 for Asian paint

CONCLUSION

The present study is devoted to the evaluation of financial leverage of select paint companies in Indian from 2012-13 to 2016-17. The proprietary ratio of Shalimar paint company is low in all the years with an average of 0.17. So, the Shalimar paint company should improve proprietary ratio for the strong financial position and greater security for creditors. The fixed asset turnover ratio of Shalimar paint company is more than Asian paint and Nerolac paint that indicates that the Shalimar paint company has more effectively utilized the investments in fixed assets to generate revenue. The long term solvency position of all the three companies is satisfactory during the whole study period.

REFERENCES

1. **Mily Williams (2014),** *"A Study on Short-Term and Long-Term Solvency of Nestle Pvt Ltd"*, Indian Journal Of Applied Research Volume: 4 | Issue: 10 | October 2014 | ISSN - 2249-555X.
2. **Vineet Singh (2015),** *"Long Term Solvency Analysis: A Case Study of Tata Motors and Maruti Suzuki",* International Journal of Management (IJM) Volume 6, Issue 9, Sep 2015, pp. 44-50, Article ID: IJM_06_09_005.
3. **V. Palanivel, Dr. C. Manikanda Muthukumar(2013),** *"A Study on Solvency Position of Dharmapuri District Central Co-Operative Bank Ltd",* INDIAN JOURNAL OF APPLIED RESEARCH Volume : 3 | Issue : 11 | Nov 2013 | ISSN - 2249-555X.
4. **M. Krishna Moorthi , Dr. M. Ramesh , N. Bhanupriya (2012),** *"Long Term Solvency (Leverage) Analysis Of Selected Steel Companies In India-An Empirical Study",* International Journal Of Management Research And Review April 2012/ Volume 2/Issue 4/Article No-7/525-538 ISSN: 2249-7196.
5. *www.capaindia.com.*
6. *www.centreforaviation.com.*
7. *www.researchandmarkets.com/research/cpmxjv/india_paint*
8. *www.indianmirror.com/indian-industries/2016/paint-2016.html*

Merajud Din Drangay
Ph. D Research Scholar, Department of Commerce, Annamalai University.