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A Comparative Study on Working Capital Management of Asian Paints Ltd. and Berger Paints Ltd. in India

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ABSTRACT

Working capital is the life blood and nerve center of business. Working capital is very essential to maintain smooth running of a business. No business can run successfully without an adequate amount of working capital. Working capital helps to operate the business smoothly without any financial problem for making the payment of short-term liabilities. Purchase of raw materials and payment of salary, wages and overhead can be made without any delay. Adequate working capital helps in maintaining solvency of the business by providing uninterrupted flow of production. This finance project report on working capital management is based on the study of working capital management in Asian Paints and Berger Paints **. An insight view of the project will encompass on ratios like current ratio, Quick ratio and fixed asset to current asset ratio.**

Keywords--- working capital, current ratio, fixed assets

I. INTRODUCTION

Working capital is defined as being the capital of a business which is used in its day-to-day operations. It is the net of current assets minus current liabilities. Working capital ensures whether or not a business organization has sufficient cash flow in order to meet its short term obligations and operating expenses.

The term working capital is used for day-to-day requirement of funds for a business. A business needs certain amount of cash for meeting routine payments, providing unforeseen events or purchasing raw materials for its production. Managing working capital includes managing cash Inventories, accounts receivables and accounts payable in an effective manner. In this way, a working capital is equal to the raw materials, work in progress, finished goods inventories and accounts receivables fewer accounts payable.

The concept of working capital should be understandable easily, as it is very much connected with our personal lives as well. In the sense, sufficient money is needed for our cost of living. We would like to collect the money owed to us, at the same time; we would like to pay whom we owe. If the ready money is not maintained properly or we fail to do so, the situation is called as bankruptcy or insolvency. The same applies to a business and the task of financial management in terms of working capital is to maintain sufficient funds for its day-to-day requirements, while safeguarding the business against the possibility of insolvency. Thus, the term working capital refers to the excess of the current assets over the current liabilities.

Current assets of a business are those that will be converted in to cash in twelve months period. They are: Cash, Receivables, inventories, marketable securities and prepayments. Current liabilities are those that are to be settled in twelve months period. Current liabilities are: Accounts payable, unearned revenues and wages payable.

The aim of good working capital management is to maintain balance in having sufficient working capital to ensure that the business is liquid to meet its current requirements. A this stage, it must be noted that being liquid does not mean to be in such a way that it affect or reduce the profitability of the business. Rather, it means to maintain balance by finding ways to smooth out cash payments in order to keep working capital stable. Thus, the importance of managing good working capital emerges due to the fact a business that manages its working capital effectively can survive while meeting its day-to-day operations successfully which in turn leads to the long term success.

II. REVIEW OF THE LITERATURE

Welter (1970) – in his study stated working capital centralized with the global delay with the purchase of raw materials and payment where received for sold of finished goods. Delay centers located at the production and marketing areas. Delay centers are classified into average delay and added delay. He recognized improved ability of management and reducing the length of delay in all the sectors. Thus this study is concerned only with return aspect of working capital management without risk.

Verma (1989) – in his study stated working capital management in iron and steel industry by taking a sample of selected units in both private and public sectors over the period 1978-79 to 1985-86. Sample included TataIron and Steel Company Ltd. (TISCO) in private sector and Steel Authority of India Ltd. (SAIL) and Indian Iron and Steel Company, a wholly owned subsidiary of SAIL, in public sector. Taking the analysis like ratio analysis, growth rates and simple linear regression analysis, the study resulted that private sector had certainly an end over public sector in respect of working capital management. Simple regression resulted that working 64 capital and sales were functionally related concepts.

Kamta Prasad Singh, Anil Kumar Sinhaand Subas Chandra Singh (1986) in their studies stated that the working capital management in fertilizer industry in India during the period 1978-79 to 1982-93. This study revealed that inefficient management of working capital was to a great responsible for the losses incurred by the FCI and its daughter units, as turnover of its current assets had been low. FCI and its daughter units had high overstocking of inventory in respect of each of its components particularly stores and spares. Similarly, quantum of receivables had been excessive and their turnover very low. However, cash and liquid resources held by FCI and his daughter units had been much lower in relation to operation requirements. The profitability internal base for of working capital had been very low in these undertakings.

Misra (1975) in her study entitled the problems of working capital with special reference to six selected public sector undertakings in India over the period 1960-61 to 1967-68. This study Analysis the financial ratios and responses to a questionnaire revealed somewhat the same results as those of NCAER study with respect to composition and utilization of working capital. In all the selected enterprises, inventory constituted the more important element of working capital.

Chakraborty(1973) in his study entitled the working capital as a segment of capital employed rather than a mere cover for creditors. He emphasized that working capital is the fund to pay all the operating expenses of running a business. He stated that return on capital employed, an aggregate measure of overall efficiency in running a business, would be adversely affected by excessive working capital. Similarly, too little working capital might reduce the earning capacity of the fixed capital employed over the succeeding periods. For knowing the appropriateness of working capital amount, he applied Operating Cycle (OC) Concept. He calculated required cash working capital by applying OC concept and compared it with cash from balance sheet data to find out the adequacy of working capital in Union Carbide Ltd. and Madura Mills Co. Ltd. for the years 1970 and 1971.

III. PROFILE OF THE COMPANIES

ASIAN PAINTS LTD.

Asian Paints Limited was established way back on February 1, 1942 and today stands as India’s largest and Asia’s third largest paint company. Asian Paints operates in 17 countries and has 25 paint manufacturing facilities in the world servicing consumers in over 65 countries.

Asian Paints is India's largest paint company in India and Asia's third largest paint company with a turnover of Rs54.63 billion. The company operates in 20 countries and has 28 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 Taubmans. 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. The present MD & CEO of the company is P.M. Murty.

The company has come a long way since its small beginnings in 1942. Four friends who were willing to take on the world’s biggest, most famous paint companies operating in India at that time set it up as a partnership firm. Chimanlal Choksi, Champaklal Choksey, Suryakant Dani and Arvind Vakil were the four friends who started the company. Suryakant Dani owned a garage where he did the painting work for Machines & vehicles. The same garage is where Asian Paints started off its operations. 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.

BERGER PAINTS LTD

The driving forces of Berger Paints - reflect the very spirit of its founder Lewis Berger - who laid the foundations of brand Berger Way back in 1760 in the UK. With modest beginnings in India in 1923, today, Berger Paints India Limited is the second largest paint company in the country with a consistent track record of being one of the fastest growing paint company, quarter on quarter, for the past few years.

Undergoing a number of changes in ownership and nomenclature in its 88 year old history in India, the company has come a long way. Starting out as Hadfield's (India) limited, it had just one factory in Howrah, West Bengal. By the close of 1947, Hadfield's was acquired by British Paints (Holdings) Limited, UK and came to be known as British Paints (India) Limited. In 1983, the name of the Company was changed to Berger Paints India Limited. Currently, the majority stake is with the Delhi based Dhingra brothers. Berger Paints has established itself through a long course of time. From an annual sales turnover of Rs.25 lakh, business revenues today are in excess of Rs.3, 600 crores on a consolidated basis.

Headquartered at Kolkata, with 11 strategically located manufacturing units and about 170 sales offices (all including those belonging to the Company’s own division and subsidiaries). The company also has an international presence in 3 countries. With employee strength of about 2,500 and a countrywide distribution network of 15,000+ dealers, Berger is acclaimed as a game changer in the sector with a vibrant portfolio of paints and tailor-made customer services in every paint segment.

Committed to being a responsible corporate citizen, Berger proactively pursues strategies both within and without that bring multiple societal and environmental benefits to all stakeholders.

IV. OBJECTIVES OF THE STUDY

- To determine the efficiency of working capital by using Ratio Analysis
- To compare the efficiency of working capital management in Painting companies

V. METHODOLOGY

5.1 Sources of Data and Selection of Sample

The study is analytical and empirical in nature based on secondary data. For present study a sample of two Paints companies listed at Bombay Stock Exchange (BSE) has been selected using convenience sampling for the period of five years i.e. 2011 to 2015 .The Sample companies are Asian Paints ltd. and Berger Paints ltd. The data have been collected from secondary sources viz., annual Reports and accounts of selected companies and financial journals.

5.2 Frame work of Analysis

For the analysis the researcher has used statistical tool and financial tool like Mean, ratio analysis.

Ratio Analysis

Ratio analysis is one of the techniques of financial analysis to evaluate the financial condition and performance of a business concern. Simply, ratio means the comparison of one figure to other relevant figure or figures. The following ratios are applied to analyze the company's working capital position.

- Current ratio
- Quick ratio
- Fixed Asset to Current Assets Ratio
- Receivables management ratios
- Inventory management ratios

VI. ANALYSIS

Table 6.1 Current Ratio

Year	Current Ratio (No. of Times)	
	Asian	Berger
2010-2011	1.464	1.785
2011-2012	1.212	1.633
2012-2013	1.289	1.458
2013-2014	1.430	1.359
2014-2015	1.511	1.478
Average	**1.38**	**1.543**

2. Quick Ratio:

Table 6.2 Quick Ratio

Year	Quick Ratio (No. of Times)	
	Asian	Berger
2010-2011	1.461	0.754
2011-2012	1.21	0.715
2012-2013	1.287	0.769
2013-2014	1.429	0.829
2014-2015	1.510	0.905
Average	**1.379**	**0.794**

3. Fixed Assets to Current Assets Ratio:

Table 6.3 Fixed Assets to Current Assets Ratio

Year	Fixed Asset to Current Assets Ratio(Times)	
	Asian	Berger
2010-2011	0.447	0.328
2011-2012	0.580	0.321
2012-2013	0.708	0.409
2013-2014	0.514	0.506
2014-2015	0.504	0.513
Average	**0.551**	**0.416**

VII. FINDINGS

Asian Paint current ratio increased high level in 2014-2015 as 1.51. By average it keeps the ratio position to 1.38 which shows the company is able to meet its current obligation.

Berger paint current ratio increased in 2010-11 as 1.79. The average ratio is 1.543 which shows it maintains above the bench mark level of 2:1

Asian Paint Quick ratio increased in the year 2014-2015 with 1.51 The average ratio is 1.38 more than the bench mark level 1:1 indicating the concerns capacity to pay of current obligations immediately.

Berger Paint quick ratio increased in the year of 2014-2015 as 0.91. The average quick ratio is 0.79 which is below the benchmark level 1:1 indicating a non satisfactory position.

Asian Paint Fixed Asset to Current Assets Ratio was high in the year 2012-2013 with 0.71.The average Fixed Asset to Current Assets Ratio is 0.55.

Berger Paint Fixed Asset to Current Assets Ratio was high in the year 2014-2015 with 0.51. The Fixed Asset to Current Assets Ratio is 0.416 and it indicates that the company is efficiently utilizing the current assets.

VIII. CONCLUSION

The study of the working capital management concerned with the companies like Asian Paint and Berger Paint was listed with objective of assessing the performance of working capital management in terms of the existing system of inventory, receivables and payables management of the companies by analysis the financial data with help of ratio analysis and schedules of changes in working capital. It is observed from the analysis that the working capital of the companies is efficiently managed throughout the study period. It is also understand that over all the working capital management of the companies is found to be satisfactory.

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