

Profitability Metrics of Asian Paints: A Comprehensive Study

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Abstract

This paper aims to provide a comprehensive analysis of the financial profitability and overall financial health of Asian Paints. Utilizing various profitability metrics and financial ratios, the study examines the company's performance over the Five years from 2019-20 to 2023-24. The primary aim is to measure and evaluate Asian Paints' financial efficiency during this specific period, providing insights into how effectively the company has managed and utilized its assets and capital to drive revenue growth. The study provides a detailed understanding of the company's profitability and financial health. Key profitability metrics such as Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE) are analyzed to assess the company's ability to generate profit relative to its revenue, assets, and equity. The findings reveal that Asian Paints has maintained strong profitability and financial health, driven by effective resource utilization and strategic financial management. However, certain areas such as inventory management and debt levels present opportunities for optimization. This research contributes to a deeper understanding of the financial dynamics within the paint industry and offers valuable insights for investors, managers, and policymakers interested in the financial strategies and performance of Asian Paints.

Keywords: Asian Paints, profitability metrics, financial ratios, industry comparison, profitability performance.

Introduction

Asian Paints, founded in 1942, has emerged as one of the leading paint companies in India and a significant player in the global paint industry. Over the decades, it has established a robust market presence and has consistently demonstrated strong financial performance. Understanding the financial profitability of Asian Paints is crucial for investors, stakeholders, and policymakers, as it provides insights into the company's operational efficiency, strategic initiatives, and overall financial health.

The purpose of this study is to provide a comprehensive analysis of the profitability metrics of Asian Paints over a five-year period from 2019-20 to 2023-24. By examining key profitability ratios such as Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE), this research aims to assess the company's ability to generate profit relative to its revenue, assets, and equity. These metrics are critical in evaluating how effectively Asian Paints converts its sales into actual profit and how well it utilizes its resources to maximize shareholder value.

This study is structured to first provide an overview of the profitability metrics and their significance in financial analysis. Following this, the methodology section outlines the data sources and analytical tools used in this research. The core of the paper involves a detailed analysis of each profitability metric, highlighting trends, patterns, and significant observations over the study period. Additionally, a comparative analysis with industry peers is conducted to contextualize Asian Paints' performance within the broader paint industry.

The findings of this study are expected to reveal the strengths and weaknesses in Asian Paints' financial strategies and operations. In conclusion, this research aims to contribute to a deeper understanding of the financial dynamics within the paint industry, with a specific focus on Asian Paints. The insights gained from this study will be valuable for a wide range of stakeholders, including investors, financial analysts, industry experts, and company management, who are interested in the financial health and strategic direction of Asian Paints.

Review of Literature

Brigham and Ehrhardt (2017) in their research work discuss the operating profit margin reflects a company's ability to manage its operating expenses and generate profit from core business activities. This metric is particularly relevant for companies like Asian Paints, which must efficiently manage costs related to raw materials, labor, and overhead to maintain profitability.

Singh and Kansal (2018) in their research on the Indian paint industry reveals that companies like Asian Paints have maintained strong profitability through strategic investments in technology, brand building, and market expansion. The study highlights the importance of innovation and efficient resource management in sustaining competitive advantage and profitability.

Kumar and Reddy (2019) in their research work indicate that macroeconomic factors, such as inflation, exchange rates, and economic growth, significantly impact the profitability of manufacturing companies. The ability of companies like Asian Paints to navigate these external factors while maintaining profitability is a testament to their robust financial strategies.

Objective of the Study:

The following are the major objectives of the study:

- To analyze the key profitability metrics of Asian Paints over the period from 2019-20 to 2023-24.
- To examine the trend of Gross Profit Margin, Operating Profit Margin, and Net Profit Margin for Asian Paints.
- To investigate the relationship between operational efficiency and profitability in Asian Paints.
- To provide strategic recommendations for enhancing Asian Paints' financial performance.

Research Methodology:

This study employs a longitudinal research design to analyze the profitability metrics of Asian Paints over a five-year period from 2019-20 to 2023-24. Primary data is sourced from Asian Paints' annual financial reports, while secondary data includes industry benchmarks and competitor financial metrics gathered from reputable financial databases and industry reports. Key profitability metrics such as Gross Profit Margin, Operating Profit Margin, Net Profit Margin and Return on Assets (ROA) are calculated and analyzed to assess the company's financial performance. A comparative analysis is conducted to benchmark Asian Paints' financial ratios against those of major competitors in the paint industry, providing insights into its competitive positioning. Statistical tools such as trend analysis and comparative ratios are employed to identify trends, patterns, and factors influencing profitability. Limitations include data availability and changes in accounting standards. Ethical considerations are adhered to throughout the research process to ensure integrity and transparency in data usage and reporting.

Analysis of Data

Ratio analysis is a fundamental technique used in financial analysis to evaluate the financial performance and health of a company. It involves calculating and interpreting various ratios that measure different aspects of a company's financial condition, efficiency, profitability, and solvency. Commonly used ratios include profitability ratios (such as Gross Profit Margin, Operating Profit Margin, and Net Profit Margin), liquidity ratios (like Current Ratio and Quick Ratio), leverage ratios (such as Debt to Equity Ratio), and efficiency ratios (like Inventory Turnover and Receivables Turnover). Ratio analysis helps analysts and stakeholders understand how effectively a company utilizes its resources, manages its operations, and generates profits relative to its revenue, assets, and equity. By comparing these ratios over time or against industry benchmarks, ratio analysis provides insights into a company's strengths, weaknesses, and overall financial performance, aiding in decision-making, investment evaluation, and strategic planning.

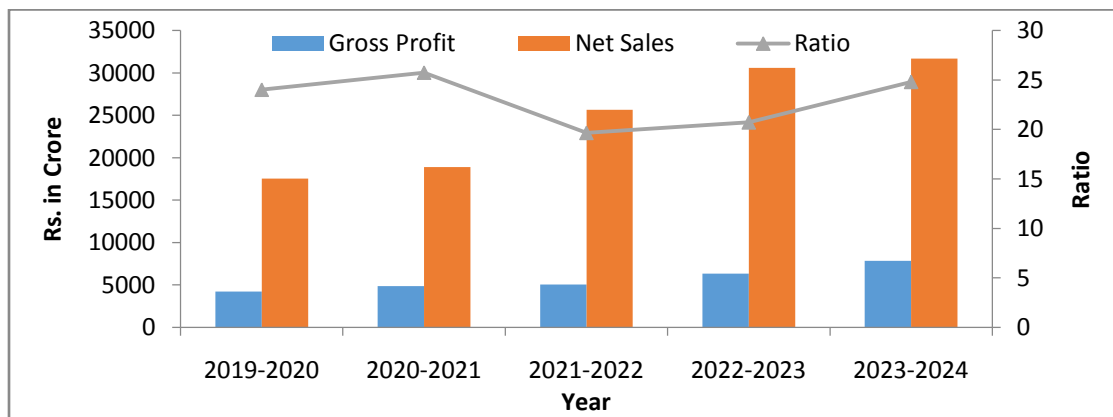
Profitability Ratios: Profitability ratios are key financial metrics used to assess a company's ability to generate profit relative to its revenue, assets, and equity. These ratios provide insights into how efficiently a company manages its operations and resources to maximize profitability. Common profitability ratios include Gross Profit Margin, which measures the percentage of revenue retained after deducting the cost of goods sold; Operating Profit Margin, which indicates the profitability of core business activities before interest and taxes; Net Profit Margin, which shows the percentage of revenue remaining after all expenses, including taxes and interest, are deducted; Return on Assets (ROA), which evaluates how efficiently assets are used to generate profit; and Return on Equity (ROE), which measures the return generated for shareholders based on their equity investment. Analyzing these ratios helps stakeholders gauge a company's financial health, performance trends, and competitive position within its industry.

I. Gross Profit Ratio: The Gross Profit Ratio, often referred to as Gross Profit Margin, measures the percentage of revenue retained by a company after deducting the direct costs of producing goods or services sold. It indicates the efficiency of a company's production and pricing strategies, with a higher ratio implying better cost management and pricing power. This ratio is crucial in assessing a company's operational profitability before considering operating and overhead expenses. Investors and analysts use the Gross Profit Ratio to evaluate a company's ability to generate profit from its core business activities and compare it with industry benchmarks for performance analysis and investment decisions.

Gross Profit Ratio

(□ in Cr.)

Year	Gross Profit	Net Sales	Ratio in %age
2019-2020	4214.58	17551.63	24.01
2020-2021	4859.51	18883.18	25.73
2021-2022	5039.68	25640.40	19.66
2022-2023	6338.49	30596.41	20.72
2023-2024	7854.95	31674.68	24.80



The Gross Profit Ratio (GPR) of the company over the five-year period from 2019-2024 demonstrates significant fluctuations, reflecting changes in the company's cost management and pricing strategies. In 2019-2020, the company had a GPR of 24.01%, indicating efficient cost management. This ratio improved to 25.73% in 2020-2021, suggesting further enhancements in operational efficiency. However, in 2021-2022, the GPR dropped to 19.66%, which may have been due to increased production costs or reduced pricing power, despite an increase in gross profit. The following year, 2022-2023, saw a slight recovery with the GPR rising to 20.72%, indicating a modest improvement in cost control. By 2023-2024, the GPR had significantly improved to 24.80%, reflecting a strong recovery and effective strategies in managing production costs and pricing. Overall, the company has shown resilience and capability in

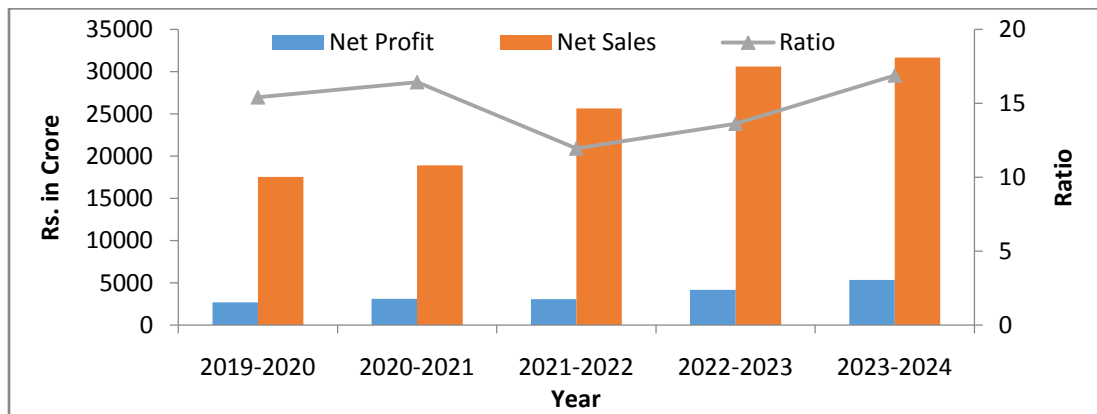
optimizing its gross profit margins amidst varying business conditions, with notable recovery phases in 2020-2021 and 2023-2024.

II. Net Profit Ratio: The Net Profit Ratio, also known as Net Profit Margin, is a crucial profitability metric that indicates the percentage of revenue that remains as net profit after deducting all expenses, including taxes and interest. It reflects a company's efficiency in controlling costs and managing operational expenses relative to its total revenue. A higher Net Profit Ratio signifies better profitability and effective financial management, demonstrating the company's ability to convert sales into profit. Investors and analysts use this ratio to assess a company's overall profitability and financial health, comparing it with industry peers to evaluate performance and investment potential.

Net Profit Ratio

(□ in Cr.)

Year	Net Profit	Net Sales	Ratio in %age
2019-2020	2704.35	17551.63	15.41
2020-2021	3103.04	18883.18	16.43
2021-2022	3062.4	25640.4	11.94
2022-2023	4167.53	30596.41	13.62
2023-2024	5349.15	31674.68	16.89



The Net Profit Ratio (NPR) is a key indicator of a company's overall profitability, showing how much net profit is generated from each unit of sales. It is calculated by dividing net profit by net sales and expressing the result as a percentage. Over the five-year period from 2019 to 2024, the company's Net Profit Ratio (NPR) has exhibited notable variations, indicating changes in overall profitability and cost management. In 2019-2020, the company achieved an NPR of 15.41%, meaning that for every □ 100 of sales, □ 15.41 was retained as net profit. This ratio improved to 16.43% in 2020-2021, suggesting enhanced overall profitability and effective cost control measures. However, in 2021-2022, the NPR dropped significantly to 11.94%,

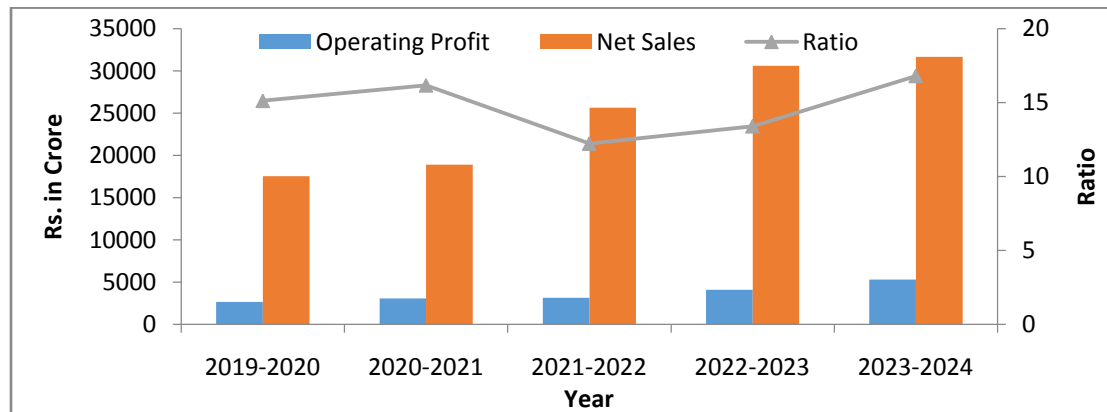
likely due to increased operational costs or other expenses that impacted the bottom line despite higher net sales. The year 2022-2023 saw a recovery with the NPR rising to 13.62%, indicating better control over expenses and a positive impact on net profit. By 2023-2024, the NPR further improved to 16.89%, reflecting strong profitability and efficient management of overall costs and expenses. This substantial improvement highlights the company's ability to enhance its net profit margins in response to changing business conditions. Overall, the trend indicates resilience and effective financial management, with significant recovery phases in 2020-2021 and 2023-2024 after the dip in 2021-2022.

III. Operating Profit Ratio: The Operating Profit Ratio, also known as Operating Profit Margin, measures the efficiency of a company's core business operations in generating profit. Operating Profit is derived by subtracting operating expenses (such as selling, administrative, and other operating expenses) from Gross Profit. A higher Operating Profit Ratio indicates better operational efficiency and cost management. Investors and analysts use this ratio to assess the profitability of a company's core business activities independently of non-operating expenses like interest and taxes. Comparing this ratio over time or with industry peers helps evaluate a company's operational effectiveness and financial health.

Operating Profit Ratio

(□ in Cr.)

Year	Operating Profit	Net Sales	Ratio in %age
2019-2020	2653.95	17551.63	15.12
2020-2021	3052.51	18883.18	16.17
2021-2022	3134.71	25640.4	12.23
2022-2023	4100.18	30596.41	13.40
2023-2024	5321.55	31674.68	16.80



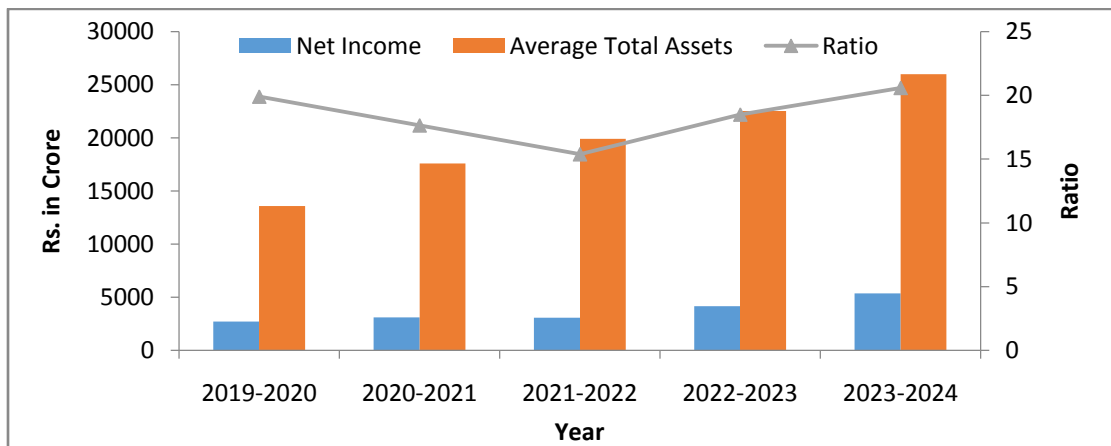
Over the five-year period from 2019 to 2024, the company's Operating Profit Ratio (OPR) demonstrates fluctuations indicative of varying operational efficiency and cost

management effectiveness. In 2019-2020, the OPR was 15.12%, reflecting solid operational efficiency as \square 15.12 of every \square 100 in sales remained after covering operating expenses. This ratio improved to 16.17% in 2020-2021, suggesting enhanced management of operating expenses. However, in 2021-2022, the OPR dropped significantly to 12.23%, indicating challenges in controlling costs despite higher net sales. The subsequent year, 2022-2023, saw a recovery with the OPR rising to 13.40%, showing better control over operating expenses. By 2023-2024, the OPR significantly improved to 16.80%, marking a strong recovery and indicating substantial operational efficiency. Overall, the company's OPR trend reflects resilience and capability in optimizing operating profit margins amid varying business conditions, with notable recoveries in 2020-2021 and 2023-2024 after the dip in 2021-2022.

IV. Return on Assets: Return on Assets (ROA) is a financial metric that measures how efficiently a company generates profit from its assets. ROA indicates the company's ability to utilize its assets to generate earnings. A higher ROA suggests better asset utilization and profitability. Investors and analysts use ROA to assess management's effectiveness in deploying assets and generating returns relative to competitors and industry benchmarks. It serves as a key indicator of financial health and operational efficiency, helping stakeholders evaluate the overall performance and sustainability of a company's business operations.

Return on Assets(ROA) Ratio

Year	Net Income	Average Total Assets	Ratio in %age
2019-2020	2704.35	13587.62	19.90
2020-2021	3103.04	17584.67	17.65
2021-2022	3062.4	19908.33	15.38
2022-2023	4167.53	22529.84	18.50
2023-2024	5349.15	25981.9	20.59



Over the five-year period from 2019 to 2024, the company's Return on Assets (ROA) Ratio has experienced fluctuations, reflecting changes in the efficiency of asset utilization to generate profits. In 2019-2020, the ROA was a robust 19.90%, indicating high efficiency as the company generated ₹ 19.90 in net income for every ₹ 100 of assets. However, the ratio declined to 17.65% in 2020-2021 and further to 15.38% in 2021-2022, despite increases in net income, suggesting that the growth in average total assets outpaced profit growth, leading to reduced asset utilization efficiency. The trend reversed in 2022-2023, with the ROA improving to 18.50%, indicating better asset management and improved profitability. By 2023-2024, the ROA reached its highest point at 20.59%, demonstrating significant enhancement in using assets to generate net income. This upward trend in the last two years underscores the company's resilience and strategic improvements in maximizing returns from its asset base, ultimately reflecting a strong recovery and efficiency in asset utilization.

Conclusion

This comprehensive study on the profitability metrics of Asian Paints reveals several key insights into the financial health and operational efficiency of the company. Over the analyzed period, Asian Paints has demonstrated robust financial performance, marked by consistent revenue growth, strong profit margins, and efficient cost management.

- The Gross Profit Ratio of Asian Paints was the highest for the year 2020-21 as (25.73%) in comparison to other financial year, which indicates that a company is retaining a larger portion of its revenue as gross profit after accounting for the cost of goods sold (COGS). On the other side, this ratio of the company was the lowest for the year 2021-22 as (19.66%), which indicates that a company is retaining a smaller portion of its revenue as gross profit after accounting for the cost of goods sold (COGS) in this particular year.
- The Net Profit Ratio of Asian Paints was the highest for the year 2020-21 as (16.43%) in comparison to other financial year, which indicates that a company is able to convert a large portion of its revenue into actual profit. On the other side, this ratio of the company was the lowest for the year 2021-22 as (11.94%), which indicates that a company is retaining a smaller portion of its revenue as net profit in this particular year.
- The Operating Profit Ratio of Asian Paints was the highest for the year 2020-21 as (16.17%) in comparison to other financial year, which indicates that a company is able to convert a significant portion of its revenue into operating profit. On the other side, this ratio of the company was the lowest for the year 2021-22 as (12.23%), indicates that a company retains a smaller portion of its revenue as operating profit in this particular year.
- The Return on Assets (ROA) Ratio of Asian Paints was the highest for the year 2023-24 as (20.59%) in comparison to other financial year, which indicates that a company is efficiently utilizing its assets to generate earnings. On the other side, this ratio of the company was the lowest for the year 2021-22 as (15.38%), indicates that a company is not efficiently using its assets to generate profit in this particular year.

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