

An Empirical Study on Working Capital Management of Selected Paint Companies of India

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Abstract: Working capital is the operating capital requires running the daily operations of the business. The study examines working capital management of the selected paint companies in India. The study is based on secondary data which are collected from annual reports of the companies. The researcher has used t-test to test the hypothesis. The results of the study showed that current ratio of the paint companies is not satisfactory.

Keywords: Working capital, T-test, Current ratio, Quick ratio.

1. Introduction

Working capital is that part of capital which is necessary to fulfil daily requirements of business. It is required to continue production and payment of operating expenses of business. So working capital is also called liquid capital of the business. Gross working capital means total current assets of the business and net working capital mean excess of current assets over current liabilities. If there is shortage of working capital than daily operations of the business are stopped and if there is excess of working capital than firm do not have advantage of profitability. So the financial manager should have proper knowledge of the sources of working capital and management of working capital. The Indian paint industry was 100 years old. There are two types paints, industrial paints and decorative paints. Industrial paint is used to protect vehicles, steel materials against corrosion and decorative paint is used to protect buildings. The present study is undertaken to know the management of working capital in selected paint companies.

2. Objectives of the study

The following are the objectives of the study:

1. To study the theoretical aspects of working capital
2. To examine the working capital management of selected paint companies in India.
3. To analyse requirements of working capital in selected paint companies.
4. To make suggestions based on findings.

3. Research Methodology

In this study using convenient sampling method four paint companies namely Asian Paints Ltd., Berger Paints India Ltd, Kansai Nerolac Paints Ltd and Shalimar Paints Ltd are selected by the researcher. The period of the study is from 2016-17 to 2020-21. The data used in this study is secondary data collected from annual reports of the companies. For analysis of data various methods like charts, graphs, ratio analysis are used and statistical tools like mean, standard deviation t-test are used.

4. Hypothesis of the study

1. H_0 : There is no significant difference between current ratio of selected paint companies.
 H_1 : There is significant difference between current ratio of selected paint companies.
2. H_0 : There is no significant difference between quick ratios of selected paint companies.
 H_1 : There is significant difference between quick ratios of selected paint companies.

5. Data analysis and interpretation

Table 5.1 Current ratio of selected paint companies

Year	Asian	Nerolac	Berger	Shalimar
2016-17	1.89	3.43	1.69	0.96
2017-18	1.62	2.97	1.62	0.74
2018-19	1.63	2.80	1.64	1.11
2019-20	1.82	3.28	1.49	0.82
2020-21	2.17	2.99	1.69	0.76
Mean	1.826	3.09	1.63	0.88

Source: Annual reports.

The current ratio measures firm's ability to pay short term obligations within one year. In the above table we can see that current ratio of Nerolac paints was higher during the period of the study and incase of Shalimar paints it was lower. The average ratio of Nerolac paints was 3.09 highest in comparison with other companies. The current ratio of Asian paints fluctuated during the period of the study.

T-test The results of the t-test shows calculated value of t is 2.924 and tab value is 3.18. The calculated value is lower than tab value it means there was no significant difference in current ratio of selected paint companies.

Table 5.2 Quick ratio of selected paint companies

Year	Asian	Nerolac	Berger	Shalimar
2016-17	1.13	2.41	0.88	0.66
2017-18	0.98	2.02	0.90	0.51
2018-19	0.93	1.44	0.82	0.83
2019-20	0.94	1.90	0.70	0.45
2020-21	1.49	1.86	0.87	0.41
Mean	1.09	1.93	0.83	0.57

Source: Annual report

Quick ratio shows company's ability to meet urgent requirements. The increase in quick ratio means increase in liquidity position of the company and vice versa. In the above table the average quick ratio of the Asian and Nerolac paint was 1.09 and 1.93 respectively it means liquidity position of both the companies is good.

T-test

The results of the t-test shows calculated value of t is 3.77 and tab value is 3.18. So the null hypothesis rejected and alternate hypothesis accepted.

Table 5.3 Gross Working capital of selected paint companies

(in Crores)

Year	Asian	Nerolac	Berger	Shalimar
2016-17	5430.20	2354.56	1870.01	2890.95
2017-18	5501.09	2530.63	2099.21	2407.94
2018-19	6053.35	2162.17	2281.08	2901.82
2019-20	5825.70	2203.37	2209.11	1935.20
2020-21	9956.54	2893.79	3085.26	1917.63

Source: Annual reports.

In the above table we can see that gross working capital of Asian paint was 9956.54 and Berger paint was 3085 crores during the year 2020-21. Berger paint has lowest gross working capital during the year 2016-17.

6. Findings and Suggestions

1. The average current ratio of Nerolac paint is higher than other three companies. The overall current ratio of Nerolac paint is satisfactory during the period of the study. The current ratio of Asian paint, Berger paint and Shalimar paint is lower than the standard ratio. All these three companies should take steps to increase their current assets and reduce their debt.
2. The average quick ratio of all companies is 1.11. The average quick ratio of Berger paint and Shalimar paint is 0.83 and 0.57 respectively which is lower than average ratio of all companies. Both the companies should take steps to increase their quick assets to improve their liquidity position.
3. The gross working capital of all companies fluctuating during the period of the study.

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