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Comparative Solvency Analysis of the Asian paints limited and Berger Paints Limited

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Abstract

This research study is going to highlight the analysis of the financial reports of Asian paints ltd. and Berger paints ltd. Companies for the purpose of this study the required data paper has been taken from the annual reports of the said companies from their portals as well as we have seen today in the business world companies should be competent via their goods and with a proper quality which can compete to the other products in the market and by their financial reports to present the strength and weakness of the company in order to ease for the public and their convenience to know about the companies structure, to fulfilling this research study we had analyze the annual reports of the companies with the help of ratio analysis like debt equity ratio, capitalization ratios, capital gearing ratio, solvency ratios etc. and made analysis and interpretation on based of the data given by the companies, percentile method is also applied for the betterment of the analysis.

Keywords: Debt equity • Solvency •Capitalization capital gearing •Finance •Product •Ratios •Analysis

Introduction

Term solvency is used to meet long term financial obligations or needs of the company and it plays a vital role in maintaining the stability of the firm. in general parlance solvency position of the company is not depends upon the liquidity but also on the capital structure of the firm both are concepts are interrelated at the company end and solvency is what actual meaning the company is stable to pay its debt.

A very enterprise, whether big, medium, small they all needs finance to carry on its operations and to achieve its targets. In fact finance is so important for every business that it is rightly said that it is the life blood of an enterprise. Without adequate finance, no enterprise can run its business and cannot accomplish its objectives. Finance is said to be the lifeblood of the business. Funds are required to finance various activities of the business. The larger the size of the business, the larger will be the finance required. It shows that no business activity is possible without finance. That is why; every business has to make plans regarding acquisition of the funds. Because finance involves estimation, acquisition and administration of the funds of any kind used in meeting the needs and objectives of the business firms. Public finance is collection of taxes from those who benefit from the provision of public goods by the government, and the use of those tax funds toward production and distribution of the public goods. Private Finance is a method of providing funds for major capital investments where private firms are contracted to complete and manage the projects. These contracts are typically given to construction firms and last a long time, sometimes up to 30 years. The public services are leased to the public and the government authority makes annual payments to the private company.

Review of Literature

Merton Miller (here after called M.M) (1958-1963):

Present the First Formula Model on valuation of capital structure. In the model they showed that under the assumptions of perfect capital Markets, equitant risk classes no taxes, loot dividend payout ratio and constant cost of debt. The value of firm is independent of its capital structure. When corporate taxes are taken into account the value of a firm increases linearly with debt equity ratio, because of interest payment being tax exempt. M.M.s work has the Centre stage of the financial research till date, and these modes have been criticized, supported and extended over the last 35 years.

David Durand (1963)

`He criticized the model on the ground and says those assumptions used by M.M.s model are unrealistic. He argued that the cost of debit does not always remain constant when the leverage level exceeds. That accepted level, the probability of default in interest payments increase thus raising the cost of debt.

Warner (1977)

He argues that the potential bankruptcy costs a firm might face are reflected in its share price and this is taken into consideration by investors when they make investment decisions. Bankruptcy costs refer to the costs associated with declining credit terms with customers and supplier. It can be argued that supplier would not be willing to give long term credit terms to the firm as the latter faces risk of default and similarly, customers would avoid buying products and services from a firm facing a high risk of default since warranties and other after sales services will be void or at risk.

Millar (1977)

Miller challenged the trade-off theory and argued that bankruptcy and agency costs are too small to affect the tax advantage of debt. But when personal taxes are taken into account, this advantage is completely of personal tax. Thus in equilibrium, the value of a firm is independent of its capital structure even, when the market is imperfect.

Discussion

The debt-equity position of Asian paints India Ltd. and Berger paints

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India Ltd. was satisfactory during study period. But if we compare both the companies Berger paints India Ltd. was a little bit better than Asian paints India Ltd. during whole study period

Capital gearing ratio of Asian paints India Ltd. and Berger paints India Ltd. was too low during study period. Both the companies relied upon owns funds. If we compare Berger company relied more on own funds during study period. Especially at the end of the study. Both the companies are suggested to acquire finance from banks and financial institution. As they can easily get the loan on the basis of strong financial position. It will also help to form optimum capital structure.

Solvency position of both the companies was satisfactory during the study period but on the basis of comparison. Solvency of Berger paints was higher than Asian Paints India Ltd.

Proprietary fund position of both the companies was satisfactory during the study period. Because more than 50% amount has been invested in the total assets from proprietary fund in most of the years by both the companies. Here also position of Berger paints India Ltd. is better than Asian paints India Ltd. on the Basis of proprietary ratio.

Conclusion

Conclusion it can be said that the solvency position of both the company is satisfactory, because both the companies are able to pay their long term liabilities easily. As both the companies are able to get outside finance they should avail this opportunity. It will help to form proper capital structure which will be beneficial for both the companies.

Conflict of Interest

Nil

Funding and Sponsorship

Nil

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