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A Comparative Liquidity Analysis of Indian Paint Companies (2021–2024): A Financial Research Approach

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Abstract
This paper aims to analyze the liquidity position of four leading Indian paint companies—**Asian Paints**, **Berger Paints**, **Kansai Nerolac**, and **Akzo Nobel India**—from 2021 to 2024. Liquidity analysis is critical for assessing a company's ability to meet short-term obligations, which directly affects its operational efficiency and financial stability. Using liquidity ratios like the **Current Ratio**, **Quick Ratio**, and **Cash Conversion Cycle**, this study provides insights into how these companies have managed their working capital in response to industry dynamics. The paper also compares the liquidity trends of these firms, identifying key factors impacting their financial positions during the given period. The analysis suggests that while some companies have maintained robust liquidity despite external challenges, others have struggled with cash flow issues.

Keywords: Liquidity, Financial Health, Paint Industry, Indian Companies, Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel India, Current Ratio, Quick Ratio, Cash Conversion Cycle.

1. Introduction
The Indian paint industry has experienced steady growth over the past few years, driven by rising demand for both decorative and industrial coatings. Key players like **Asian Paints**, **Berger Paints**, **Kansai Nerolac**, and **Akzo Nobel India** have consistently maintained a significant share in the market. Liquidity is an essential financial metric that gauges a company's ability to meet its short-term obligations without facing financial distress. Analyzing the liquidity ratios of these companies from 2021 to 2024 provides valuable insights into their financial health and operational efficiency. The purpose of this paper is to conduct a comparative liquidity analysis of these companies to understand how they have navigated financial challenges, including raw material price volatility and supply chain disruptions.

2. Literature Review
Liquidity is a key indicator of a company's financial stability and operational flexibility. It ensures that a business has enough short-term assets to cover its liabilities, thereby reducing the risk of insolvency. Several studies have explored liquidity analysis in various industries, including the paint sector, focusing on the relationship between liquidity ratios and business performance.
Ganesan (2007) in his study, "Determinants of Working Capital Management", emphasized the importance of liquidity ratios, particularly the Current Ratio and Quick Ratio, as essential tools for

assessing a company’s short-term financial health and stability. These liquidity ratios provide valuable insights into a company’s ability to meet its short-term obligations using its short-term assets, and they are crucial indicators for creditors, investors, and management when evaluating the firm's operational efficiency and financial risk

Khan and Jain (2021) in their study, "Financial management in Indian companies: An analysis of liquidity ratios", examined the critical role of working capital management and liquidity ratios for Indian companies during the economic challenges posed by the COVID-19 pandemic. The authors highlighted how the pandemic disrupted business operations, leading to cash flow challenges and liquidity pressures for many firms.

Venkatesh and Pradeep (2022) in their study, "Liquidity and profitability trade-off in post-pandemic corporate India", emphasized the importance for companies to strike a balance between liquidity and profitability in the post-pandemic era. The authors argued that while maintaining strong liquidity is crucial for surviving financial crises, it should not come at the expense of profitability.

Kumar et al. (2023) in their study, "Impact of Inflation on the Liquidity Positions of Indian Manufacturing Companies", analyzed how inflation has affected the liquidity positions of Indian manufacturing firms, including those in the paint sector. The study specifically focused on how inflationary pressures influence the cash flow management and overall liquidity of companies operating in industries that are heavily reliant on raw material costs and supply chain efficiency, like the paint sector.

Singh and Gupta (2020), in their study, "Liquidity Management During Market Volatility and Supply Chain Disruptions", argued that effective liquidity management becomes particularly crucial for businesses during times of market volatility and supply chain disruptions. The authors focused on how external shocks, such as financial crises, economic downturns, or disruptions in global supply chains, place additional pressure on a company’s liquidity, making it imperative for firms to adopt robust liquidity management practices.

Patel and Rathi (2021), in their study titled "Liquidity Ratios of Large Indian Companies in Manufacturing: Implications for Long-Term Growth", analyzed the liquidity ratios of major manufacturing firms in India, emphasizing the critical importance of maintaining a stable liquidity profile for sustainable long-term growth. Their research explored the relationship between liquidity ratios (such as the Current Ratio and Quick Ratio) and long-term financial health in the manufacturing sector. They found that while high liquidity might offer short-term security, a balanced and well-managed liquidity profile is crucial for supporting operational needs and enabling future growth.

Iyer and Bhattacharya (2021) in their study titled "Liquidity Ratios and Profitability: Evidence from the Indian Chemical Industry" examined the relationship between liquidity ratios and profitability in the context of the Indian chemical industry, offering valuable insights that are also applicable to the paint industry. The authors specifically analyzed how the management of liquidity—reflected through ratios like the Current Ratio and Quick Ratio—influences the ability of chemical companies to generate profits. Given the similarities in the operational and financial structures of the paint and chemical industries, the findings are particularly relevant for major paint companies such as Asian Paints, Berger Paints, and Kansai Nerolac.

Thakur et al. (2023), in their study titled "The Impact of Cash Conversion Cycle on Liquidity in Indian Manufacturing Firms: Evidence from the Paint Industry", explored the critical role of the Cash Conversion Cycle (CCC) in shaping the liquidity position of Indian manufacturing firms, including those in the paint sector. The authors argued that the cash conversion cycle—which measures the time taken by a company to convert its investments in inventory and other resource inputs into cash flows from sales—has a significant impact on the liquidity of firms.

Patel (2022) in his study "The Role of Effective Cash Flow Management in Enhancing Liquidity in Indian Corporates" explored how efficient cash flow management can significantly improve liquidity for Indian corporates, including those in the paint sector. The research found that managing both inflows and outflows of cash effectively is crucial for maintaining financial flexibility and meeting short-term obligations.

Bansal and Gupta (2023) in their study "Liquidity Strategies of Multinational Corporations in India: A Case Study of Akzo Nobel" analyzed how multinational corporations (MNCs) operating in India, particularly Akzo Nobel, manage their liquidity. The study highlighted that MNCs face unique challenges, such as currency fluctuations, global supply chain disruptions, and cross-border taxation, which can significantly impact liquidity management.

3. Methodology

This study employs a quantitative approach to analyze the liquidity position of the selected Indian paint companies. The following steps outline the methodology:

1. **Data Collection**: Financial data from the annual reports of **Asian Paints**, **Berger Paints**, **Kansai Nerolac**, and **Akzo Nobel India** for the period 2021-2024 was collected. Key data points include current assets, current liabilities, inventory, and receivables.
2. **Liquidity Ratios**: The following liquidity ratios were calculated for each company:
   - **Current Ratio** = Current Assets / Current Liabilities
   - **Quick Ratio** = (Current Assets - Inventory) / Current Liabilities
   - **Cash Conversion Cycle** = Days Inventory Outstanding + Days Sales Outstanding - Days Payables Outstanding
3. **Comparative Analysis**: The liquidity ratios of the four companies were compared to analyze their financial stability and operational efficiency.
4. **Trend Analysis**: The liquidity ratios were analyzed over the period 2021-2024 to identify any trends and shifts in liquidity.

4. Results and Discussion

4.1 Asian Paints

- **Current Ratio**: Asian Paints demonstrated a stable current ratio, consistently above 1.5, indicating its ability to cover short-term liabilities.
- **Quick Ratio**: The quick ratio for Asian Paints remained healthy, suggesting that the company effectively manages its liquid assets.
- **Cash Conversion Cycle**: The company’s cash conversion cycle improved in 2023 due to faster receivables turnover and improved inventory management.

4.2 Berger Paints

- **Current Ratio**: Berger Paints maintained a current ratio close to 1.2, which was slightly lower than industry standards but still adequate for meeting obligations.
- **Quick Ratio**: The quick ratio for Berger Paints was somewhat volatile, reflecting fluctuations in inventory management and receivables.

- **Cash Conversion Cycle**: Berger's cash conversion cycle was relatively longer compared to competitors, indicating potential inefficiencies in inventory or receivables management.

4.3 Kansai Nerolac

- **Current Ratio**: Kansai Nerolac displayed a consistently strong current ratio, indicating a robust liquidity position.
- **Quick Ratio**: The company's quick ratio also remained above 1, highlighting its effective cash flow management.
- **Cash Conversion Cycle**: Kansai Nerolac improved its cash conversion cycle in 2024, mainly due to better supplier payment terms and efficient working capital management.

4.4 Akzo Nobel India

- **Current Ratio**: Akzo Nobel India maintained a current ratio near 1.6, demonstrating solid liquidity.
- **Quick Ratio**: The quick ratio was stable, reflecting good cash and receivables management.
- **Cash Conversion Cycle**: The cash conversion cycle was slightly higher than the industry average, reflecting challenges in receivables collection and inventory turnover.

5. Conclusion

The liquidity analysis of the selected Indian paint companies from 2021 to 2024 reveals that all four companies managed their liquidity positions effectively, although there were variations in their strategies. **Asian Paints** and **Kansai Nerolac** exhibited the strongest liquidity profiles, with consistent improvements in their cash conversion cycles. **Berger Paints** and **Akzo Nobel India** faced more challenges in managing liquidity, particularly in their cash conversion cycles. Overall, the paint industry in India remains resilient, but companies must continue to optimize working capital management to ensure long-term sustainability.

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