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Sources of finance: A study of akzonobel India limited and kansai nerolac paints limited

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Abstract

A company requires finances to carry out its target activities and meet its demands. That is why finance is also called as the “vital blood” of the company. Business finance facilitates the company to carry out the multiple operations that lead to the mission, objectives and target of the company. It can raise finance from a variety of sources that must be analysed properly to choose the best and the most appropriate accessible method. The sources of finance could be chosen depending on the cost, situation, purpose and the risk associated with it. The present paper studies and analyses the sources of finance- long term and short term, taken by the two leading companies of the paint industry- AkzoNobel India Limited and Kansai Nerolac Paints Limited. It also studies the influence of different elements on the year-on-year changes in the financial position and draws an inference on the use of different kinds of funds of both companies.

Keywords: Akzo nobel, finance, funds, kansai nerolac paints, paint industry

1. Introduction

Sources of finance can be broadly categorized into two categories, internal and external sources of finance (Brealey, Myers, & Allen, 2017) ^[1]. Internal sources of finance include funds generated by the company through its operations, such as retained earnings, sale of assets, and reduction of working capital. On the other hand, external sources of finance involve funds raised from outside the company, such as debt or equity financing (Ross, Westerfield, & Jaffe, 2017) ^[7]. Retained earnings are profits reinvested in the business after paying dividends to shareholders (Brealey *et al.*, 2017) ^[1]. Sale of assets refers to the disposal of fixed assets, such as buildings or equipment, to raise funds. Reduction of working capital involves the liquidation of current assets, such as inventory or receivables, to generate cash. Debt financing involves borrowing money from banks or other financial institutions, with the promise of repaying the borrowed amount with interest (Ross *et al.*, 2017) ^[7]. Equity financing, on the other hand, involves selling shares of ownership in the company to investors in exchange for funds. The choice of financing source depends on various factors, such as the company's stage of development, risk profile, and growth plans (Brealey *et al.*, 2017; Ross *et al.*, 2017) ^[1, 7]. Companies have several options for financing their operations and growth.

Paint Industry

One of the sectors that is most tightly regulated globally is the paints and coatings industry. Manufacturers of paints, varnishes, lacquers, shellacs, stains, and various other speciality coatings are included in this industry. According to estimates, the Indian paint industry is worth Rs.50,000 crores. My discussion shall cover the journey of two Paint industries- AkzoNobel India Limited and Kansai Nerolac Paints Limited. I chose these two companies as they are leaders in their respective fields.

AkzoNobel India Ltd.

AkzoNobel is a leading paints and coatings company. It is headquartered in Amsterdam, Netherlands and is active in over 150 countries with 33,000 employees. In India, it is well known for its Dulux brand. With more than 60 years of presence in India, AkzoNobel India

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currently serves the coatings industry. The Company joined the AkzoNobel Group as of 2008. Since then, the company has been on the cutting edge of innovation and has been supplying reputed and well-known brands like Dulux,

Sikkens, International, and Interpon.

The following pie charts show the composition of total assets and total equity and liabilities of AkzoNobel India Limited for the year 2022:

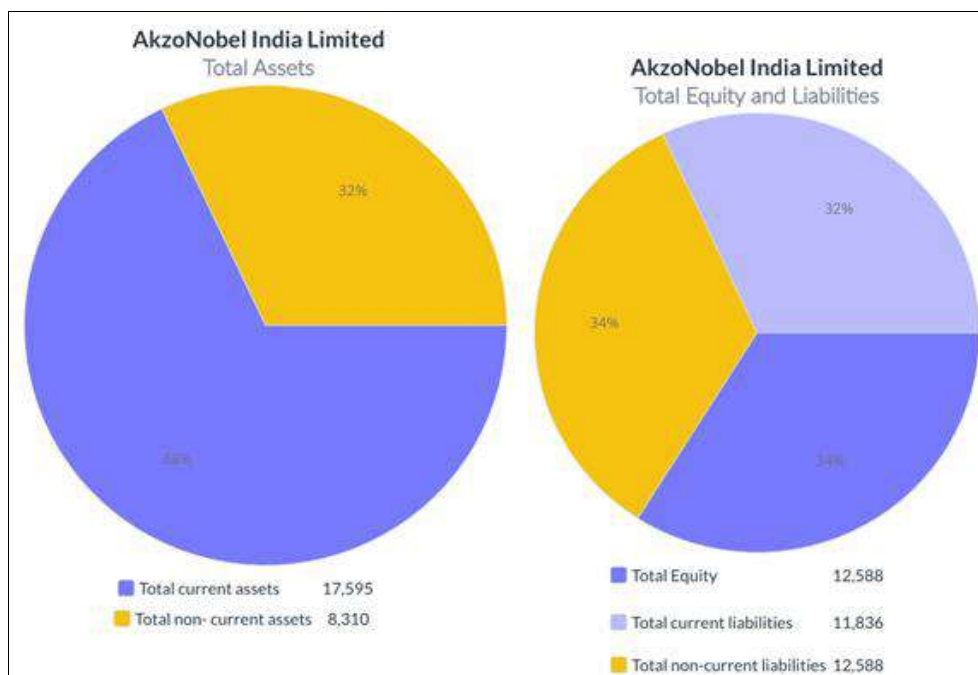


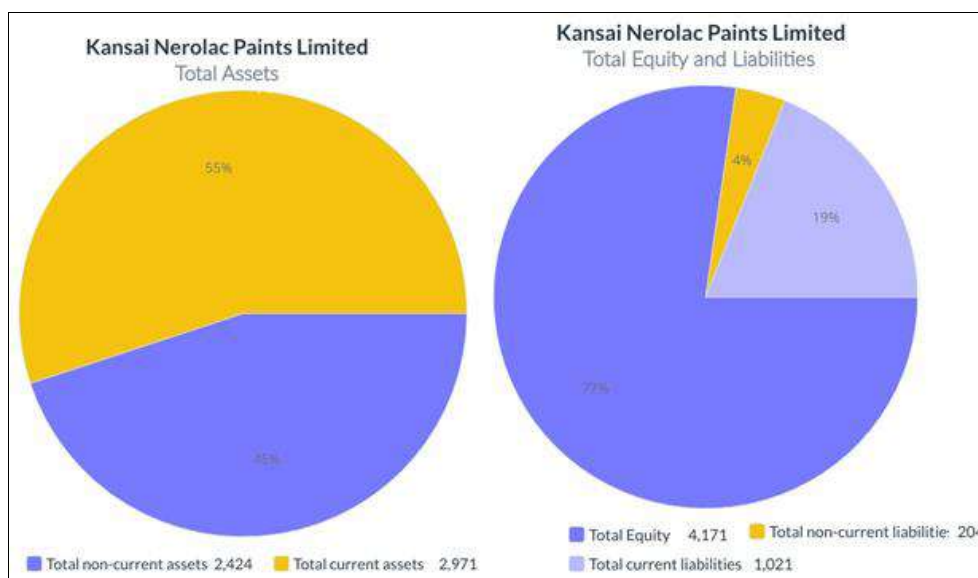
Fig 1: Composition of total assets and total equity and liabilities of AkzoNobel India Limited for the year 2022

Kansai Nerolac Paints Ltd.

Kansai Nerolac Paints Ltd. Is a leading industrial paint company. Formerly known as Goodlass Nerolac Paints Ltd., it is the third-largest decorative paint company in India. The company is based in Mumbai and is a subsidiary of the

Japanese company Kansai Paint. It works in the powder coating, industrial, and automotive businesses.

The following pie charts show the composition of total assets and total equity and liabilities of Kansai Nerolac Paints Limited for the year 2022:



Sources of Finance

Fig 2: Composition of total assets and total equity and liabilities of Kansai Nerolac Paints Limited for the year 2022

Long Term Sources of Finance

Long-term financing refers to borrowing money or taking out a loan for a period longer than a year through the sale of equity shares, a type of debt financing, long-term loans, leases, or bonds. It is generally done for large projects, funding, and business expansion. Such long-term funding is typically of a large sum. Financing the company's

strategic capital projects or growing its business operations is the essential notion of long-term finance. Most of the times, this money is invested in initiatives that will benefit the business in the long run.

1. Equity Share Capital

- To raise money, limited companies issue shares. Their

Memorandum of Association outlines the maximum authorised share capital. The balance sheet of a firm displays the value of shares. Being a public limited company (abbreviated "plc"), it permits the issuance of shares on public stock exchanges. This is referred to as "going public," or an Opening (IPO). Dividend payments based on a company's profitability, as set by the directors, are the reward for holding shares. Due to the greater risk they take in order to recoup their invested capital, equity shareholders expect a higher rate of return than debt holders.

- AkzoNobel India Limited has an authorised share capital of 126,690,000 equity shares of Rs.10 each and issued, subscribed & fully paid up share capital of 45,540,314 equity shares of Rs.10 each. The Company only has one class of equity shares, each of which has a par value of Rs.10. Each share held by a shareholder entitles them to one vote. The dividend is distributed and declared in Indian Rupees.
- Kansai Nerolac Paints Limited has an authorised capital of Rs.66.50 crores with Par value per share being Rs.1.00 and number of equity shares being 66,50,00,000. The issued, subscribed and fully paid up capital is Rs.53.89 crores with Par value per share being Rs.1.00 and the number of equity shares being 53,89,19,720. The Company has only issued one class of shares, which are equity shares and have the same rights with regard to voting, dividend payment, and capital repayment. If the company is dissolved, the holders of equity shares will be entitled to receive any remaining assets after all preferential sums have been distributed in accordance with the number of equity shares held.

2. Retained Earnings

- In most cases, a company does not pay out all of its profits in form of dividends to its shareholders. The company may decide to keep some of its net earnings for potential future use. These are referred to as retained earnings. It serves as a means of internal funding, self-financing, or "ploughing back of profits." It can be used for business expansion and growth without adding to the total debt or giving up more of the company's stock to an outside investor. They contribute to net worth and have a direct bearing on the valuation of equity shares.
- AkzoNobel India Limited has retained earnings of Rs.7035 million as on 31st March, 2022. Kansai Nerolac Paints Limited has retained earnings of Rs.4117.04 Crores. Remeasurement gains and losses resulting from actuarial assumptions changes and experience adjustments are recorded in other comprehensive income in the period in which they occur. Both the balance sheet and the statement of changes in equity list them under retained earnings.

Short Term Sources of Finance

Short term source of finance is financing that is provided on a short-term basis—less than a year. In order to finance a business's current assets, such as its inventory of raw materials and finished goods, debtors, and minimum cash and bank balance, among other things, short-term financing is required. Working capital financing is another name for short-term financing. Short term sources of finance usually include Trade Credit, Fixed Deposits for a year or less,

Creditors, Payables, and short term loans such as working capital loans from Commercial Banks, Factoring Services, and advances received from customers, Bill Discounting etc.

3. Bank Overdrafts

- A negative balance on the business bank account is referred to as an overdraft. A firm may overdraw its account up to a specified maximum limit, according to the bank's agreement. Due to the company's daily ability to increase or decrease the overdraft, this source of funding is the most flexible. Any overdraft balance is subject to interest charges. An overdraft is a current liability as it has to be repaid within a year.
- Throughout the year, AkzoNobel India Limited had no loans or other borrowings from any lenders. At the end of the reporting period, the Company however had access to the undrawn borrowing facilities. It had access to the borrowing facility of Rs.840 million of bank overdraft as on 31st March 2022 expiring within one year.
- Kansai Nerolac Paints Limited had Bank overdrafts and Cash Credit amounting to Rs.79.00 crores at the beginning of the year and Rs.88.21 crores at the end of the year for the year ended 31st March, 2022. In order to meet its working capital needs, the company has secured overdrafts and cash credit facilities from the bank at 7.95 percent to 9.20 percent (2020-2021: 6.75 percent to 9.25 percent). These facilities are repayable on demand.

4. Trade Payables

- For all businesses, trade payables are a crucial source of funding. Trade payables are obligations that must be paid for products or services that a company has bought from suppliers. If payment is due in a year or less, trade payables are categorised as current liabilities. Trade payables repayments are typically due in 30 days. Occasionally, depending on the business, a vendor might provide 60- or 90-day contracts. Most trade payables are unsecured extensions of credits, unlike banks.
- Kansai Nerolac Paints Limited had total outstanding dues of Micro Enterprises and Small Enterprises amounting to Rs.101.29 crores and total outstanding dues of creditors other than Micro Enterprises and Small Enterprises amounting to Rs.789.11 crores as at 31st March, 2022. The total Trade Payables amounted to Rs.890.40 crores.
- AkzoNobel India Limited has Rs.139 million as total outstanding dues of micro enterprises and small enterprises and Rs.8312 million as total outstanding dues of creditors other than micro enterprises and small enterprises. The total trade payables of the company were Rs.8451 million as on 31st March, 2022.

5. Creditors

- Another common and significant source of external finance is trade creditors. An entity (person or organisation) that extends credit by allowing another entity to borrow money with the intention of repaying it in the future is referred to as a creditor. A company that offers goods or services to a company or person but does not request payment right away is also regarded as a creditor because the client owes the company money

for the services that have already been provided.

- Kansai Nerolac Paints Limited has creditors for capital goods amounting to Rs.19.97 crores as on 31st March, 2022. In the previous financial year, it had Rs.13.24 crores due to creditors for capital goods.
- AkzoNobel India Limited has Capital creditors amounting to Rs.107 million as on 31st March, 2022. In the previous financial year it had capital creditors amounting to Rs.85 million.

6. Reserves

- Reserves are considered to be a significant domestic source of finance. Therefore, the company's accumulated general reserves are the first and simplest place to turn to for money when it needs money for its operations and to pay its obligations. The company can sustain its working capital needs with the help of reserves since reserves can be utilised to supplement working capital when the company's working capital is insufficient. Overcoming the businesses' potential losses in the future is one of the key benefits of having reserves and surplus. Reserves can be utilised to settle existing liabilities in the event of losses.
- Kansai Nerolac Paints Limited has Rs.0.30 crores as capital reserve Rs.487.67 crores as General Reserve.
- AkzoNobel India Limited has stated Rs.12,133 million as other equity in their balance sheet which consists of Capital Reserve of Rs.503 million, Capital Redemption Reserve of Rs.64 million, Revaluation Reserve of Rs.12 million, General Reserve of Rs.4,519 million and retained earnings of Rs.7035 million.

7. Lease Liabilities

- Leasing is the most popular medium-term financing options for investments in capital assets. Financial tools like leasing and hire purchase let businesses use assets for a fixed time period in exchange for recurring payments. The finance company purchases the necessary equipment on behalf of the business customer after the business selects it.
- Kansai Nerolac Paints Limited has Non-current Lease

Liabilities of Rs.85.93 crores and Current Lease Liabilities of Rs.22.95 crores as on 31st March, 2022. Total Lease Liabilities at the beginning of the year were Rs.90.10 crores and total Lease Liabilities at the end of the financial year were Rs.108.88 crores. With regard to its lease liabilities, the company does not face a major liquidity risk because its existing assets are enough to cover its obligations when they become due.

- AkzoNobel India Limited has total Lease Liabilities of Rs.705 million which includes Non-current Lease Liabilities of Rs.551 million and Current Lease Liabilities of Rs.154 million as on 31st March, 2022.

Year on Year Changes in the Financial Position

When evaluating a company's financial performance, we consider its profitability, solvency or liquidity, various forms of turnovers, and capital structure. Each of these elements influences a company's financial performance. In addition, other unconventional elements, such as corporate social responsibility, business size, organisational culture, staff count, market share, etc., can be utilised to assess financial performance.

1. Growth in Sales and Revenue from Operations

- According to Deitiana (2011), high growth in sales is one of the indicators of a firm business success in the past, and it could be used as a tool to predict the development in the future. It partly demonstrates the company's ability to increase its market share or introduce new items. Additionally, the company attracts new investors because of this favourable ratio. Therefore, there have been several researches in the influence of that variable on firm financial performance, and studies done by Krishnan and Moyer (1997), Zeitun and Tian (2007), Liu (2010) and Yazdanfar (2013) found a positive and significant relationship between a firm growth and performance.
- AkzoNobel India Limited
The total revenue obtained from operations increased from Rs.24,214 million in 2021 to Rs.31,486 million in 2022.



Fig 3: Revenue from Operations of Akzo Nobel India Limited

▪ **Kansai Nerolac Paints Limited**

Rs.4770.90 crores in 2021 to Rs.5948.90 crores in 2022.

The total revenue from operations increased from

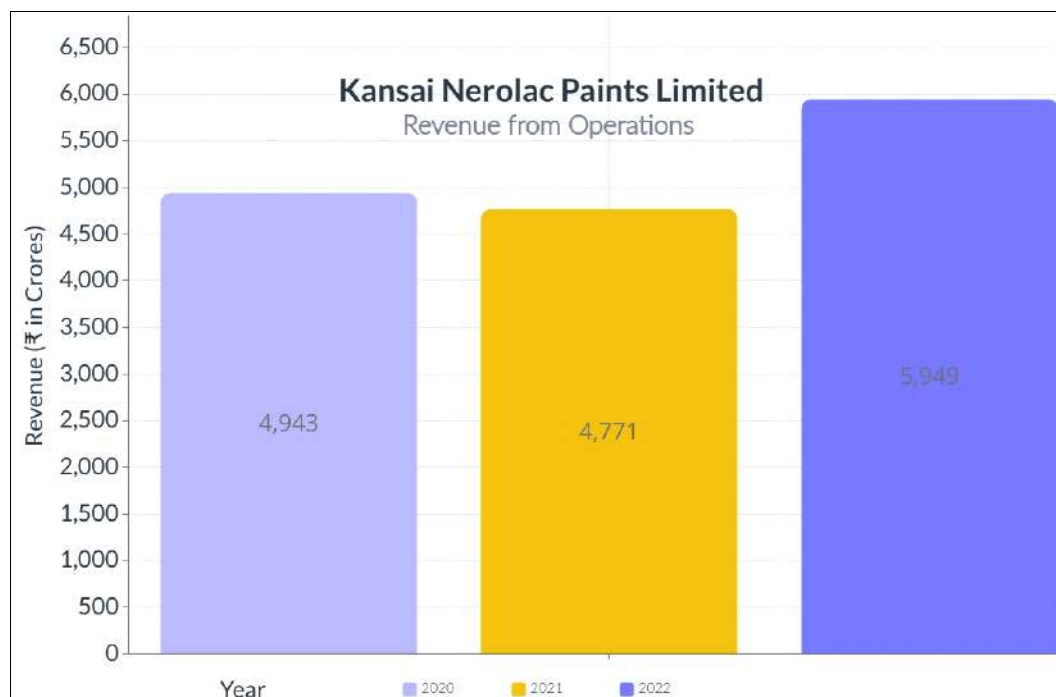


Fig 4: Revenue from Operations of Kansai Nerolac Paints Limited

2. Current Ratio

- The ratio of current assets to current liabilities is known as the current ratio. The amount to which the firm's quick assets can be used to pay off liabilities that are due to mature within the following year is referred to as liquidity. The current ratio can be used to assess it. A corporation is better able to meet its obligations if its current ratio is higher because it has a higher ratio of short-term asset value to short-term liability value.
- The current ratio of AkzoNobel India Limited remained same in the year 2020 and 2021, however it decreased from 1.6 in year 2021 to 1.5 in 2022.
- The current ratio of Kansai Nerolac Paints Limited decreased from 3.4 in year 2020 to 2.96 in 2021 and it further decreased to 2.91 in the year 2021-2022.

3. Equity Share Capital

- The equity share capital of AkzoNobel Limited has remained constant from past couple of years. The equity share capital is Rs.455 million as on 31st March 2020, 2021 and 2022. There hasn't been any change in the Equity Share Capital. However, the Total Equity of the company first increased from Rs.12, 373 million in 2020 to Rs.12,876 million in 2021 and then the Total Equity reduced to Rs.12,588 million in 2022.
- Kansai Nerolac Paints Limited's Equity Share Capital has remained ₹53.89 crores as on 31st March 2020, 2021 and 2022. At the end of March 2021, the paid-up equity share capital of the Company was ₹ 53.89 crores.

The Company did not issue any Equity Shares in the year under review. The Company's capital structure has remained constant throughout the year.

4. Inventory Turnover Ratio

- The inventory turnover ratio demonstrates how quickly a business is selling its goods off the shelves. It is calculated by dividing the average inventory by the cost of goods sold. A high turnover percentage suggests the business has less inventory available for purchase, which could cost them prospective revenue. In other words, the corporation may lose some potential revenue and profit because its allocation of capital to inventories is not ideal. A low turnover ratio, on the other hand, may indicate that the business overspends on inventory that isn't moving quickly enough.
- The inventory turnover ratio of Kansai Nerolac Paints Limited increased from 2.87 in 2020-21 to 3.12 in 2021-22.
- The inventory turnover ratio of AkzoNobel India Limited decreased from 3.4 in 2019-20 to 2.9 in 2020-21 and then it increased to 3.3 in 2021-22.

Kansai Nerolac Paints Limited

There have been numerous changes in the financials of Kansai Nerolac Paints Limited. The Company's standalone financial results for the year ending March 31, 2022 are summarised below (FY 2021-22) in comparison to the previous year's standalone financial results FY 2020-21.

	₹ in Crores	
	2021-22	2020-21
Revenue from Operations	5948.90	4770.90
Profit before Depreciation, Interest, Exceptional item and Tax	647.34	843.53
Less: Depreciation and Amortisation	153.82	149.01
Profit Before Interest, Exceptional Item and Tax	493.52	694.52
Less: Interest	9.87	8.48
Add: Other Income	32.86	38.85
Profit before Exceptional item and Tax	516.51	724.89
Less : Exceptional Item	11.39	10.82
Profit Before Tax	505.12	714.07
Less : Tax Expenses	130.79	183.47
Profit After Tax	374.33	530.60
Other Comprehensive Income ...	2.51	0.27
Total Comprehensive Income for the year	376.84	530.87

Fig 5: Kansai Nerolac Paints Limited's standalone financial results summarised for the year ending 31st March, 2022

- The total revenue from operations for the year increased by 24.7 percent to 5948.90 Crores from 4770.90 Crores in the prior year.
- Due to substantial inflation that was not offset by a proportionate increase in sales price, gross margins were seriously impacted, particularly in the case of industrial businesses.
- Employee Benefits Expense comprises a provision made for Executive Directors' retirement benefits of ₹ 24.22 Crores for the calendar year. In comparison to the prior year, when overheads made up 14.2% revenue, they were lower this year, at 13.9%.
- Depreciation for the year amounted ₹153.82 Crores, which is a little more than the year before.
- In contrast to the previous year, when other income was ₹38.85 crores, it was lower this year, at ₹32.86 crores.

Following is the graphical representation of Year on year changes in Revenue from operations, shareholders' fund, profit, profitability, Earnings per Share and return on equity:

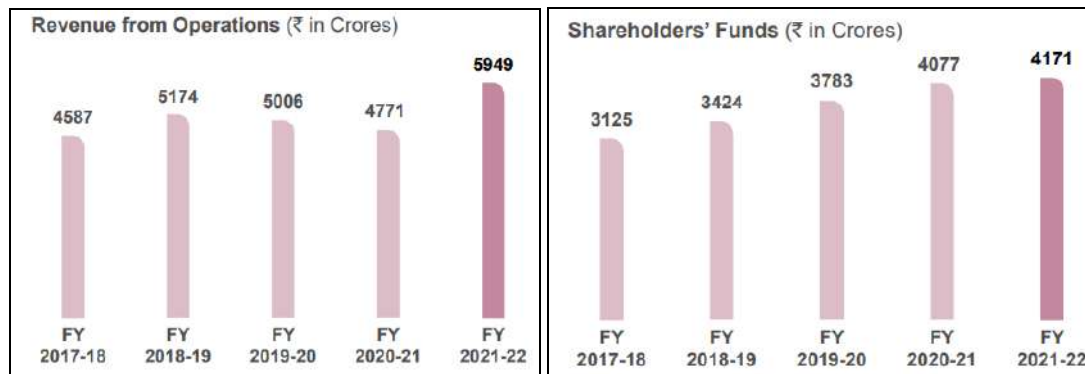


Fig 6: Graphical representation of year on year changes in revenue from operations and shareholder's fund of Kansai Nerolac Paints Limited

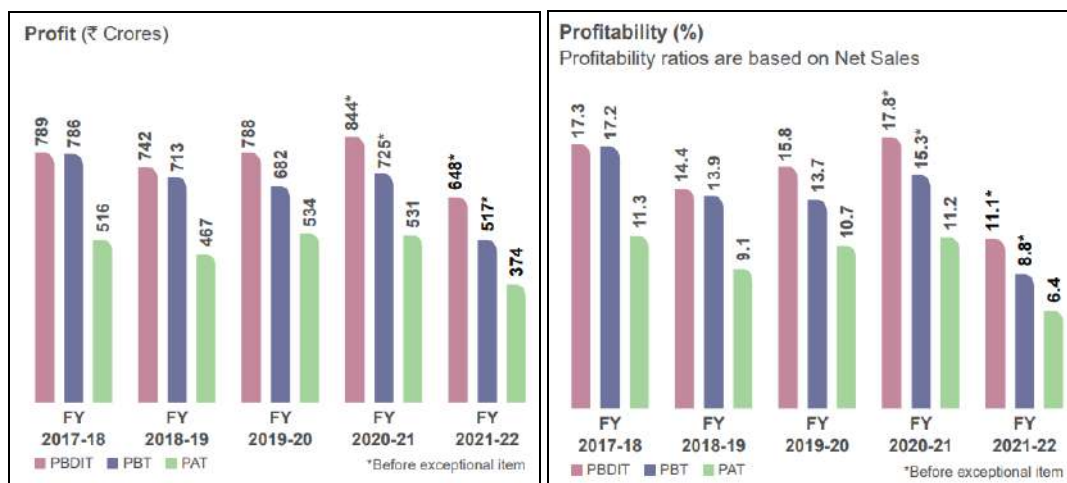


Fig 7: Graphical representation of year on year changes in profit and profitability of Kansai Nerolac Paints Limited

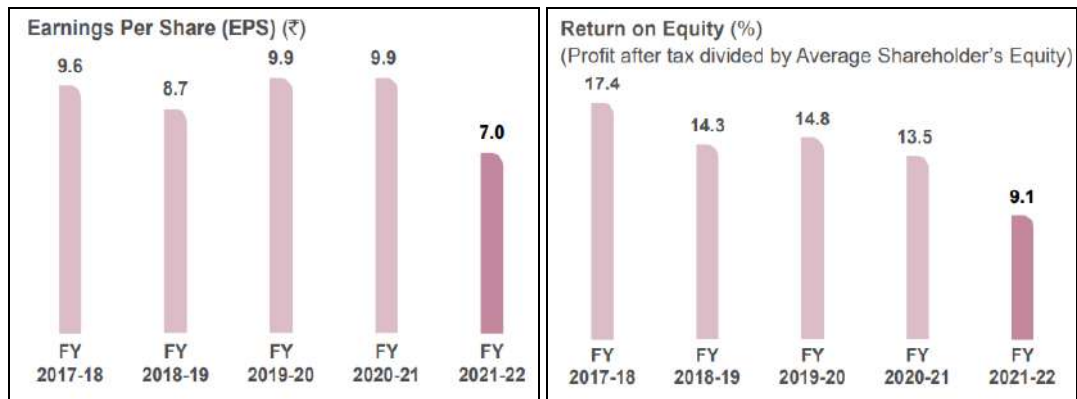


Fig 8: Graphical representation of year on year changes in earnings per share and return of equity of Kansai Nerolac Paints Limited

AkzoNobel India Limited

The following are the year on year changes in the financials of AkzoNobel Paints Limited:

	Standalone	
	2021-22	2020-21
Revenue from Operations	31,486	24,214
Operating Profit (EBITDA)*	4,323	3,407
Depreciation	(759)	(755)
Other Income net of finance costs	83	130
Exceptional items	20	-
Profit before tax	3,667	2,782
Tax	(767)	(706)
Profit after tax	2,900	2,076

*before exceptional items

Fig 9: Changes in the financial of AkzoNobel India Limited

Key financial ratios	Standalone	
	2021-22	2020-21
Debtors Turnover	6.9	6
Inventory Turnover	3.3	2.9
Interest Coverage	29.9	33.2
Current ratio	1.5	1.6
Operating Profit Margin (%)	14	14
Net Profit Margin (%)	9	9
Return on Networth (%)	23	16
Debt/ Equity	5.6	5.0

Fig 10: Changes in the financial ratios of AkzoNobel India Limited

The following graphs present the differences and changes in the revenue from operations, Profit before Tax, Cash flow

from operations (before tax) and profit after tax for the past couple of years for AkzoNobel India Limited:

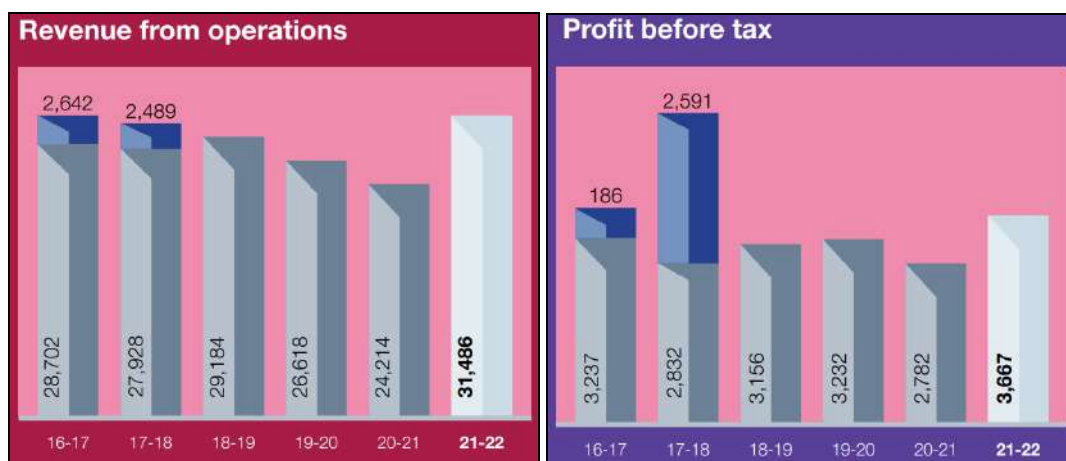


Fig 11: Graphs representing changes in revenue from operations and profit before tax of AkzoNobel India Limited

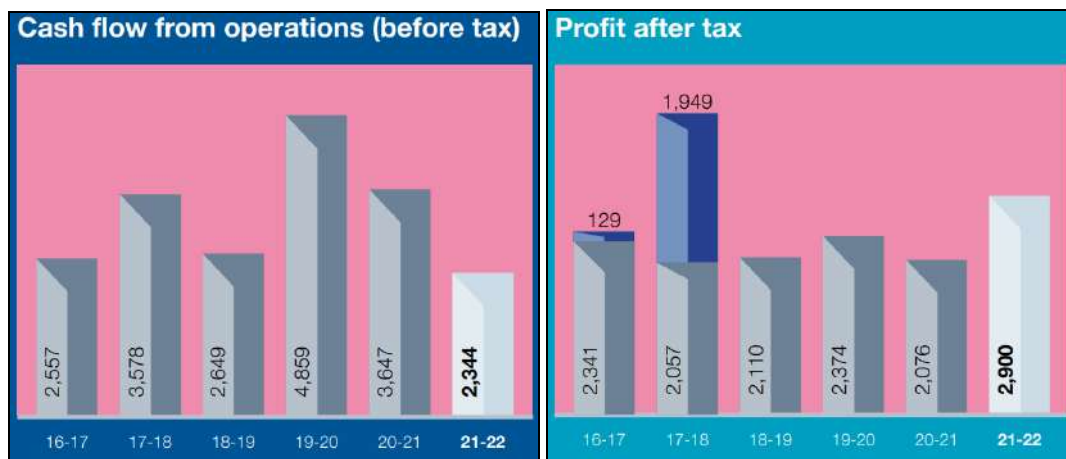


Fig 12: Graphs representing changes in cash flow from operations (before tax) and profit before tax of AkzoNobel India Limited

Inferences on the use of different sources of funds

Sources and uses of funds statement provides an overview of how a company's financial condition has changed over time. In US audited annual reports, the cash flow statement (1989) has taken its place. A company's cash inflow and outflow over an accounting period—typically a quarter or a year—are displayed on the cash flow statement. A cash flow statement divides cash flows into operating, investing, and financing activities and reports the changes in a company's cash and cash equivalents.

Kansai Nerolac Paints Limited

- Kansai Nerolac Paints Limited has used the funds available for various operating, investing and financing activities.
- The company used Rs.213.78 crores for purchase of Property, Plant and Equipment and other intangible

assets, Rs.0.14 crores for purchase of non-current Investments, Rs.3014.36 crores for purchase of current investments and Rs.11.11 crores for investments in fixed deposits.

- For financing activities, it used Rs.8.34 crores for repayment of current borrowings, Rs.32.76 crores for payment of lease liabilities, Rs.0.38 crores for paying interest and Rs.282.93 crores for paying dividend. The net cash flows used in financing activities amounts to Rs.324.41 crores.
- “The company has given a good avg. return on equity of 17.23% for 5 years. The Return on capital employed stood at 20.96% which is showing a handsome return by the company. The company is virtually debt free company with Debt to Equity Ratio 0.00.” (Mahajan, 596)

Table 1: Use of different sources of funds by Kansai Nerolac Paints Limited

S. No.	Utilization of Funds	₹ in crores
1.	Purchase of Property, Plant and Equipment and Other Intangible Assets	213.78
2.	Purchase of non-current Investments	0.14
3.	Purchase of Current Investments	3014.36
4.	Investments in fixed deposits	11.11
5.	Repayment of Current Borrowings	8.34
6.	Payment of Lease Liabilities	32.76
7.	Interest Paid	0.38
8.	Dividend Paid	282.93
9.	Net Cash Flows used in Financing Activities	282.93

AkzoNobel India Limited

- AkzoNobel India Limited used Rs.634 million for investing activities i.e. for making the payment of purchase of property, plant and equipment.
- It also used Rs.153 million for principle element of lease payments, Rs.3,188 million for paying dividend

and Rs.118 million for paying interest. The net cash outflow from financing activities amounted to Rs.3,459 million.

- Non-cash investing activity involved the acquisition of right-of-use assets worth Rs.295 million.

Table 2: Use of different sources of funds by AkzoNobel India Limited

S. No.	Utilization of Funds	In million Indian ₹
1.	Payments for Purchase of Property, Plant and Equipment	634
2.	Principle element of Lease Payments	153
3.	Dividend Paid	3,188
4.	Interest Paid	118
5.	Net Cash outflow from financing activities	3,459

Conclusion

The goals of expansion and growth in industry can be

achieved only with the availability of the requisite amount of funds with the companies. Both AkzoNobel India

Limited and Kansai Nerolac Paints Limited manage long term and short term finances from several sources for their financial performances and exorbitant profits and a variety of conventional and unconventional elements influence the financial performances of these companies.

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