



Original Article

Profitability Analysis of Asian Paints: A Financial Statement Perspective (2018-2022)

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Abstract

Every company runs because of its profit. The term "profit" refers to the remaining amount after deducting all expenses from sales. It is an important indicator of a company's financial health and is measured by the profitability ratio. Financial statement analysis, along with operational analysis, helps assess the financial health of a company and enables owners and investors to make investment decisions. From a management perspective, it is crucial to make decisions regarding company planning. Analysis serves as an important tool to understand a company's financial performance, and profitability is a key aspect in analyzing its financial health. Therefore, this paper aims to analyze the profitability statement of Asian Paints from the years 2018 to 2022.

Keywords: Profitability Analysis, Financial Statement, Analysis, Ratio Analysis, Gross Profit Ratio, Net Profit Ratio, Operating Expenses Ratio, Return on Equity

Introduction

Financial statement analysis provides detailed information about a company's financial health and performance. It involves the process of analyzing and interpreting the company's financial statements. Ratio analysis plays a vital role in financial statement analysis as it helps determine and understand the relationships between various financial factors. Ratio analysis involves a thorough examination of the company's financial statements and considers factors such as profitability, solvency, liquidity, and efficiency. These ratios provide valuable insights into the company's financial performance and help assess its overall financial health. The main categories of ratios used in ratio analysis include profitability ratios, solvency ratios, liquidity ratios, and efficiency ratios.

The term "profitability" is derived from two words: "profit" and "ability." Profit refers to the income generated by a company from its sales, while also considering the deduction of all expenses. In other words, profit represents the remaining amount after deducting expenses from sales. On the other hand, ability refers to a company's capability to provide returns to its shareholders after deducting all expenses. This ability to generate returns is an essential aspect of profitability. Therefore, profitability combines both the concept of generating income from sales (profit) and the company's capacity to provide returns to its shareholders (ability).

Profit serves as a motivation for economic activities, and businesses are integral parts of economic activity. The profitability ratio plays a crucial role in assessing a company's financial health and position. It is an important tool among the available tools for describing a company's financial position and evaluating its success and growth.

In this paper, the focus will be on analyzing the profitability ratio of Asian Paints Ltd. for the years 2018 to 2022. By examining the profitability ratio, we can gain insights into the company's financial performance, assess its profitability, and understand its growth trajectory over the specified period.

Research methodology

Research methodology is the combination of two words: "research" and "methodology." Research refers to a systematic process that involves a detailed and careful study aimed at discovering something new or expanding existing knowledge. Methodology, on the other hand, refers to the methods and tools used in research.

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It helps researchers select appropriate methods for their study and determines which methods are suitable for a particular research objective. In this research, the focus was on analyzing the profitability ratio of Asian Paints Ltd. using the company's annual reports from the years 2018 to 2022. The analysis was conducted using secondary data, which refers to data that has been previously collected and published. The researcher specifically selected the following profitability ratios for analysis.

- Gross profit ratio.
- Net profit ratio.
- Operating expenses ratio.
- Return on equity ratio.

Data Analyses and Interpretations

- **What is financial statement analysis?**

Financial statement analysis refers to the process of examining and evaluating a company's financial statements to gain insights into its financial performance and overall health. It involves a detailed analysis of various financial statements such as the balance sheet, income statement, and cash flow statement. The purpose of financial statement analysis is to assess the company's profitability, liquidity, solvency, efficiency, and overall financial stability.

- **What is ratio analysis?**

Ratio analysis is a financial analysis technique that involves the calculation and interpretation of various ratios to assess the financial performance and condition of a company. It helps in understanding the relationships between different financial variables and provides insights into the company's financial position.

Ratio analysis involves the comparison of different financial ratios, which are derived from the company's financial statements, such as the balance sheet, income statement, and cash flow statement. These ratios are calculated by dividing one financial variable by another and are expressed in the form of percentages, proportions, or times.

The main objective of ratio analysis is to evaluate the company's financial performance, profitability, liquidity, solvency, and operational efficiency. It helps in identifying trends, strengths, weaknesses, and potential risks associated with the company's financial operations.

There are different categories of ratios used in ratio analysis, including profitability ratios, liquidity ratios, leverage ratios, and activity ratios. Profitability ratios assess the company's ability to generate profits from its operations. Liquidity ratios measure the company's ability to meet short-term obligations. Leverage ratios evaluate the company's capital structure and its ability to meet long-term obligations. Activity ratios analyze the efficiency of the company's asset management and utilization.

By conducting ratio analysis, companies can gain insights into their financial performance over time, make informed decisions regarding future planning and resource allocation, and identify areas for improvement. Similarly, investors can use ratio analysis to assess the financial health and performance of a company before making investment decisions.

- **What is profitability ratio?**

Profitability ratios are one of the key aspects of financial statement analysis. Profitability ratios help evaluate a company's ability to generate profits from its operations and indicate its overall profitability. These ratios provide information about the company's profitability in relation to its sales, expenses, and investments. They help in assessing the company's efficiency in managing its resources and generating returns for its shareholders.

Some commonly used profitability ratios include gross profit ratio, net profit ratio, return on assets (ROA), return on equity (ROE), and operating profit margin. These ratios provide insights into different aspects of the company's profitability and help in comparing its performance with industry benchmarks and competitors.

In the case of Asian Paints Limited, analyzing the profitability ratios from 2018 to 2022 would provide valuable information about the company's ability to generate profits, manage expenses, and provide returns to its shareholders. This analysis can aid investors in making informed investment decisions and assist management in evaluating the effectiveness of their operational strategies.

- **What is the Gross Profit Ratio?**

The gross profit ratio assesses the company's ability to manage its production costs in relation to net sales. It represents the difference between net sales and the cost of goods sold. A higher gross profit ratio indicates that the company is efficient in managing its operating expenses, fixed expenses, depreciation, and other miscellaneous expenses. It also indicates that the company can generate net income to cover operating and other expenses. Conversely, a lower gross profit ratio suggests that the company's sales may be low, resulting in an inability to manage operating and other expenses effectively.

- **What is Net Profit Ratio?**

The net profit ratio represents the remaining profit after deducting both direct and indirect expenses from sales. It provides insights into how much profit is available for distribution to shareholders and is valuable for management decision-making related to business operations. A higher net profit ratio indicates that the company can manage its direct and indirect expenses and providing a good return to shareholders. On the other hand, a lower net profit ratio indicates that the company may struggle to manage expenses and provide a satisfactory return to shareholders.

- **What is the Operating Expenses Ratio?**

The operating expenses ratio helps determine whether the company can effectively manage its operating costs and assesses the efficiency of the company. Operating expenses include costs related to business operations, such as the cost of goods sold, depreciation, administration, and selling expenses. A higher operating expenses ratio suggests that the company's operating expenses are higher than its net revenue, which may impact profitability. Conversely, a lower ratio indicates that the company's operating expenses are lower than its net revenue, indicating better efficiency in managing costs.

- **What is Return on equity (ROE) ratio?**

The return on equity (ROE) ratio measures how effectively a company is utilizing shareholder funds to generate profits and determine the return it provides to shareholders. Shareholders are considered the real owners of the company, and the ROE ratio helps assess their returns.

A higher ROE ratio indicates that the company is utilizing shareholder funds efficiently and generating maximum profits, resulting in a greater return for shareholders. It reflects the company's ability to generate profits from the equity invested by shareholders.

On the other hand, a lower ROE ratio suggests that the company may be struggling to provide a satisfactory return to its shareholders. This could be due to increasing expenses that outweigh the net profit generated, thus reducing the return on equity.

By analyzing the ROE ratio, you can gain insights into how effectively Asian Paints Limited is using shareholder funds to generate profits and the extent to which it is providing returns to its shareholders. A higher ratio would indicate better performance in this regard, while a lower ratio would suggest areas for improvement in managing expenses and maximizing profitability.

By analyzing these ratios, you will gain insights into Asian Paints Limited's ability to manage production costs, overall expenses, and generate profits. These ratios will provide a financial picture of the company's performance, enabling a better understanding of its profitability condition.

Explanation of ratio for Asian paints for duration of 2018-2022

Gross Profit Ratio:

- In 2018, the gross profit ratio was 44.32.
- It decreased to 41.25 in 2019.
- In 2020, it increased to 43.33, showing improvement.
- The highest ratio was recorded in 2021 at 44.32, indicating a strong gross profit margin.
- However, in 2022, it decreased to 42.04, the lowest ratio among the given years.

Net Profit Ratio:

- In 2018, the net profit ratio was 13.61.
- It slightly decreased in 2019.
- In 2020, it significantly increased to 16.05, indicating improved profitability.
- The highest ratio was observed in 2021 at 16.69.
- However, in 2022, it decreased to 12.54, the lowest ratio among the given years.

Operating Expenses Ratio:

- In 2018, the operating expenses ratio was 25.73.
- It slightly decreased in 2019.
- In 2020, it increased to 27.02, indicating higher operating expenses relative to net sales.
- The ratio decreased to 25.77 in 2021.
- In 2022, it further decreased to 23.13, the lowest ratio among the given years.

Return on Equity Ratio:

- In 2018, the return on equity ratio was 24.3.
- It slightly decreased to 24.09 in 2019.
- The highest ratio was observed in 2020 at 29.07, indicating a significant return to equity shareholders.
- In 2021, it decreased to 25.24.
- In 2022, it further decreased to 23.48, the lowest ratio among the given years.

These interpretations suggest that Asian Paints Limited has generally maintained a good gross profit ratio, indicating efficient management of production costs. The net profit ratio shows variations but generally reflects the company's ability to manage expenses and provide returns to shareholders. The operating expenses ratio indicates a slight decrease over the years, implying some efficiency in managing operating costs. The return on equity ratio has shown fluctuations, with 2020 recording the highest ratio, indicating a good return to equity shareholders, while the ratio decreased in the subsequent years.

The analysis of the study reveals that Asian Paints is performing well in terms of profitability. The company has higher gross profit and net profit ratios, indicating its ability to effectively manage production and operating costs. Asian Paints has demonstrated efficiency in managing its operating expenses relative to its sales, as indicated by the operating expenses ratio. Furthermore, the return on equity ratio shows that Asian Paints has consistently increased its sales and provided good returns to its equity shareholders.

Conclusion

From an investor's perspective, Asian Paints Limited appears to be a favorable option for investment due to its ability to provide better returns to its shareholders. The company's strong return on equity ratio signifies its profitability and financial performance. In conclusion, the findings suggest that Asian Paints Limited is performing well in terms of profitability, making it an attractive choice for investment.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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