

Profitability Assessment of Selected Textile Mills -A Study With Special Reference To Indian Textile Industry

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ABSTRACT

India's textile industry since its beginning continues to be predominantly cotton based with about 65 per cent of fabric consumption in the country being accounted for cotton. The financial performance of the industry can be studied with regard to various factors namely market place, competitiveness, technology, environment protection and strategic positioning. India earns about 30 per cent of its total foreign exchange through textile exports. Further, the textile industry of India also contributes significantly in the total industrial production of the country. The purpose of this study is to analyze the profitability of textile industry with the help of current ratio of selected textile mills for the period of 10 years from 2009-10 to 2017-18. The variables include PBIDT/Sales, Sales/Net Assets, PBDIT/Net Assets, PAT/PBIDT, Net Assets/Net Worth, ROE, Price Earning (P/E), Price to Book Value (P/BV), Price/Cash EPS (P/CEPS), EV/EBIDTA, Market Cap/Sales, Debt-Equity Ratio, Long Term Debt-Equity Ratio, Fixed Assets Turnover ratio, Inventory Turnover ratio and Debtors Turnover ratio. The dependent variable is current ratio and the analysis is performed on selected 10 textile companies which includes Vardhman Text, Trident, Nitin Spinners, Kallam Spinning, Rajapalayam, Ambika Cotton, Ginni Filaments, DCM, Vishal Fabrics and Super Sales. The financial year runs from 1st April to 31st March every year.

Keywords: India's textile industry, financial performance and financial year

1.1 INTRODUCTION

The Indian textile industry is extremely varied with major sectors such as the hand spun and hand woven sector, the capital incentive, sophisticated mill sector, and the decentralized Power

looms, hosiery and knitting sector. The major sub sectors that comprise of textile sector includes the organized cotton and fibre textile mill industry, the manmade fibre yarn industry, the wool and woolen textile industry, the sericulture and silk textiles Industry, the handlooms, handicrafts and the jute textile industry. The sales, productivity and profitability conditions of the textile industry differs from the other Industries. The textiles sector has witnessed a spurt in investment during the last decade. The industry (including dyed and printed) attracted Foreign Direct Investment (FDI) worth US\$ 2.97 billion during April 2000 to June 2018. Some of the major investments in the Indian textiles industry as follows: In May 2018, textiles sector recorded investments worth Rs 27,000 crore (US\$ 4.19 billion) since June 2017. The Government of India announced a Special Package to boost exports by US\$ 31 billion, create one crore job opportunities and attract investments worth Rs 800.00 billion (US\$ 11.93 billion) during 2018-2020. As of August 2018, it generated additional investments worth Rs 253.45 billion (US\$ 3.78 billion) and exports worth Rs 57.28 billion (US\$ 854.42 million). Against this background, it is very important to analyze the financial performance of the manufacturing sector after liberalization to show how the liberalization has really led the key role to an improvement in the growth performance of the sector, lifting of the import restrictions of the Multi-Fiber Arrangement (MFA), since 1st January 2005 under the World Trade Organization (WTO) Agreement on Textiles and Clothing. It is imperative to study the financial performance of this sector so as to guide the future policy makers to decide whether to continue, increase, decrease or to drop the importance and proper assistance given to this sector. Therefore, the present study is undertaken to study the financial performance appraisal of the selected textile mills.

1.2 OBJECTIVE OF THE STUDY

The following is the objectives of the study

- To analyse the determinants of profitability of the selected textile mills in the study area with the help of current ratio.

1.3. RESEARCH METHODOLOGY

According to the prowess corporate database developed by CMIE, (Centre for Monitoring Indian Economy) 60 textile spinning mills are listed in Bombay stocks exchange and trading as on

January 2018. Based on Total assets which has above Rs.300 crores 10 textile mills out of 60 mills are selected for the study. The following table describes it: The following are the sample units which have been considered for the present study. **1.Vardhman Text, 2.Trident, 3.Nitin Spinners 4.Kallam Spinning 5.Rajapalayam 6.Ambika Cotton 7.Ginni Filaments 8.DCM 9.Vishal Fabrics 10.Super Sales** for the period of 10 years from 2008-09 to 2017-2018 and the essential data for this period have been collected for 10 companies. The financial year runs from 1st April to 31st March every year.

1.4 REVIEW OF LITERATURE

Rajamanicam (2002) conducted a study on the financial performance of textiles industry which revealed that recessionary trend, during the last years, has further eroded already, the low profitability of a large number of mills, many mills face liquidity crisis. It further stated that the low profitability in the last few years has severely affected the working of (almost two third) the spinning mills in the country. Most of them faced the problem of working capital shortage and some have suffered from accumulated losses.

Vasuki Rao and Arindam Mukherjee (2004) analysed the performance of top-twenty five companies in textile sector based on sales and profitability basis in the year 2003. In the study the information of the name of the company, sales, net-worth, paid-up capital, earning per share, break-up values, and others pertaining to the year 2003 have been taken into account for the analysis. Some of the companies are Dewan Salman Fiber Limited, Nishat Mills Limited, Ibrahim Fibers Limited, Fateh Textile Mills Ltd, Sapphire Textile Mills Limited, Gul Ahmed Textile Mills Limited, Kohinoor Textile Mills Limited, Crescent textile Mills Limited, Fatima Enterprises Limited, and others.

Sumathi (2009) stated that the Indian Textile industry occupied an important place in the economy of the country because of its commendable contribution to the industrial output, employment generation and foreign exchange earnings. One of the earliest to come into existence in India, it accounts for 14 per cent of the total Industrial production, contributes to nearly 30 per cent of the total exports and is the second largest employment generator after agriculture. Profit earning is the prime aim of every business.

Kavita Rani (2015) investigated the impact of capital structure (Debt, Equity ratio) on financial performance measured by EPS, Return on Investment, Capital Turnover, Debt to Net Worth, Net Profit Ratio, Return on Capital Employed and Return on Equity. On the basis of objectives the data from mainly three sectors were taken from 2003-2012 of 60 listed companies taken from Three sectors. The analysis was done by applying correlation and regression statistics. The findings indicated that the capital structure has no significant impact on financial performance in the automobile sector on the other hand electronic and textile sector had shown that financial performance was significantly affected by capital structure.

1.5 ANALYSIS AND INTERPRETATION:

TABLE No.1

**CORRELATION ANALYSIS BETWEEN SELECTED VARIABLES WITH
CURRENT RATIO OF TEXTILE INDUSTRIES**

Variable	Vardhman Textiles Ltd (VATL)		Trident Ltd(TRIL)		Nitin Spinners Ltd(NISL)	
	r	p-value	r	p-value	r	p-value
X1-PBIDT/Sales(%)	-0.1921	0.5950	-0.00054	0.999	0.433	0.211
X2- Sales/Net Assets	-0.7772	0.0082	-0.01218	0.973	0.691	0.027*
X3- PBDIT/Net Assets	-0.5850	0.0757	0.104189	0.775	0.551	0.099
X4-PAT/PBIDT(%)	-0.5470	0.1018	-0.33759	0.340	-0.486	0.155
X5-Net Assets/Net Worth	0.8908	0.0005	0.884142	0.001**	-0.433	0.212
X6-ROE(%)	-0.0135	0.9704	-0.01079	0.976	0.250	0.485
X7-Price Earning (P/E)	-0.3203	0.3669	-0.24186	0.501	0.193	0.594
X8-Price to Book Value (P/BV)	-0.6295	0.0511	0.07662	0.833	-0.320	0.367
X9-Price/Cash EPS (P/CEPS)	-0.5459	0.1026	-0.01581	0.965	-0.107	0.769
X10-EV/EBIDTA	-0.1336	0.7129	0.321152	0.366	-0.093	0.799

X11-Market Cap/Sales	-0.6713	0.0336	-0.28522	0.424	-0.271	0.449
X12-Debt-Equity Ratio	0.9043	0.0003**	0.950755	0.000**	-0.223	0.535
X13-Long Term Debt-Equity Ratio	0.9141	0.0002**	0.965695	0.000**	-0.238	0.508
X15-Fixed Assets Turnover ratio	-0.6401	0.0462	0.324441	0.360	0.381	0.277
X16-Inventory Turnover ratio	-0.3914	0.2634	0.041593	0.909	-0.342	0.334
x17-Debtors Turnover ratio	0.4480	0.1942	0.762881	0.010*	-0.590	0.073
x18-Interest Cover Ratio	-0.6460	0.0436	-0.00406	0.991	0.150	0.679

****Correlation is significant at the 0.01 level (p<0.01) *Correlation is significant at the 0.05 level (p<0.05)**

The correlation coefficient matrices of the selected variables with the dependent variable, i.e., Current Ratio of selected Industries for the periods from 2008-09 to 2017-2018. The following are the variables employed for the analysis:

X1-PBIDT/Sales(%), X2- Sales/Net Assets, X3- PBDIT/Net Assets, X4-PAT/PBIDT(%), X5-Net Assets/Net Worth ,X6-ROE(%),X7-Price Earning (P/E),X8-Price to Book Value (P/BV),X9-Price/Cash EPS (P/CEPS),X10-EV/EBIDTA X11-Market Cap/Sales,X12-Debt-Equity Ratio,X13-Long Term Debt-Equity Ratio,X15-Fixed Assets Turn over ratio,X16-Inventory Turnover ratio,x17-Debtors Turnover ratio and x18-Interest Cover Ratio

In **Vardhman Textiles Ltd (VATL)** , two variables namely X12-Debt-Equity Ratio,X13-Long Term Debt-Equity Ratio are at one per cent level of positive correlation.

In **Trident Ltd(TRIL)** , four variables namely X5-Net Assets/Net Worth ,X12-Debt-Equity Ratio, X13-Long Term Debt-Equity Ratio and x17-Debtors Turnover ratio are at one percent have significant positive correlation with profitability of the company.

In **Nitin Spinners Ltd(NIS)**, only one variables namely X2- Sales/Net Assets at five percent level has significant positive correlation with profitability of the company.

TABLE No.2

**CORRELATION ANALYSIS BETWEEN SELECTED VARIABLES WITH
CURRENT RATIO OF TEXTILE INDUSTRIES**

Variable No.	Suryalakshmi Cotton Mills Ltd(SCML)		Kallam Textiles Ltd(KATL)		Rajapalayam Mills Ltd(RAML)	
	r	p-value	r	p-value	r	p-value
X1-PBIDT/Sales(%)	-0.001	0.999	0.487	0.154	0.819	0.004**
X2- Sales/Net Assets	-0.012	0.973	-0.105	0.772	-0.867	0.001**
X3- PBDIT/Net Assets	0.104	0.775	0.320	0.368	-0.034	0.926
X4-PAT/PBIDT(%)	-0.338	0.340	0.327	0.356	-0.424	0.222
X5-Net Assets/Net Worth	0.884	0.001**	-0.348	0.325	0.831	0.003**
X6-ROE(%)	-0.011	0.976	0.271	0.449	0.018	0.960
X7-Price Earning (P/E)	-0.242	0.501	-0.247	0.491	-0.069	0.849
X8-Price to Book Value (P/BV)	0.077	0.833	-0.199	0.582	-0.275	0.441
X9-Price/Cash EPS (P/CEPS)	-0.016	0.965	-0.414	0.234	-0.497	0.144
X10-EV/EBIDTA	0.321	0.366	-0.343	0.332	-0.230	0.523
X11-Market Cap/Sales	-0.285	0.424	-0.125	0.731	-0.278	0.436
X12-Debt-Equity Ratio	0.951	0.000**	-0.218	0.545	0.847	0.002**
X13-Long Term Debt-Equity Ratio	0.966	0.000**	0.833	0.003**	0.862	0.001**

X15-Fixed Assets Turnover ratio	0.324	0.360	-0.466	0.174	-0.662	0.037*
X16-Inventory Turnover ratio	0.042	0.909	-0.393	0.261	0.008	0.982
x17-Debtors Turnover ratio	0.763	0.010**	0.076	0.835	0.593	0.071
x18-Interest Cover Ratio	-0.004	0.991	0.234	0.516	-0.286	0.422

****Correlation is significant at the 0.01 level (p<0.01) *Correlation is significant at the 0.05 level (p<0.05)**

TABLE No.3

**CORRELATION ANALYSIS BETWEEN SELECTED VARIABLES WITH
CURRENT RATIO OF TEXTILE INDUSTRIES**

Variable No.	Ambika Cotton Mills Ltd(AMCL)		Ginni Filaments Ltd(GIFL)	
	r	p-value	r	p-value
X1-PBIDT/Sales(%)	-0.370	0.293	-0.027	0.941
X2- Sales/Net Assets	0.293	0.412	-0.780	0.008
X3- PBDIT/Net Assets	0.130	0.719	-0.390	0.266
X4-PAT/PBIDT(%)	0.563	0.090	-0.233	0.517
X5-Net Assets/Net Worth	-0.428	0.217	0.716	0.020*
X6-ROE(%)	-0.154	0.670	-0.058	0.874
X7-Price Earning (P/E)	0.860	0.001**	-0.452	0.190
X8-Price to Book Value (P/BV)	0.811	0.004**	-0.473	0.167
X9-Price/Cash EPS (P/CEPS)	0.871	0.001**	-0.561	0.091
X10-EV/EBIDTA	0.850	0.002**	0.243	0.499
X11-Market Cap/Sales	0.875	0.001**	-0.444	0.198

X12-Debt-Equity Ratio	-0.476	0.165	0.769	0.009**
X13-Long Term Debt-Equity Ratio	-0.411	0.238	0.890	0.001**
X15-Fixed Assets Turnover ratio	0.409	0.240	-0.501	0.140
X16-Inventory Turnover ratio	-0.022	0.952	-0.331	0.351
x17-Debtors Turnover ratio	-0.360	0.307	0.607	0.063
x18-Interest Cover Ratio	0.875	0.001**	-0.248	0.489

**Correlation is significant at the 0.01 level (p<0.01) *Correlation is significant at the 0.05 level (p<0.05)

TABLE No.4

**CORRELATION ANALYSIS BETWEEN SELECTED VARIABLES WITH
CURRENT RATIO OF TEXTILE INDUSTRIES**

Variable No.	DCM Ltd(DCML)		Super Sales India Ltd(SSIL)	
	r	p-value	r	p-value
X1-PBIDT/Sales(%)	0.436	0.208	0.397	0.255
X2- Sales/Net Assets	-0.667	0.035*	-0.378	0.281
X3- PBDIT/Net Assets	0.525	0.119	0.080	0.826
X4-PAT/PBIDT(%)	0.777	0.008**	0.349	0.322
X5-Net Assets/Net Worth	-0.308	0.387	0.018	0.961
X6-ROE(%)	0.585	0.075	0.356	0.312
X7-Price Earning (P/E)	0.284	0.427	0.356	0.312
X8-Price to Book Value (P/BV)	-0.468	0.173	0.003	0.993

X9-Price/Cash EPS (P/CEPS)	-0.759	0.011*	-0.350	0.322
X10-EV/EBIDTA	-0.770	0.009**	-0.309	0.384
X11-Market Cap/Sales	0.315	0.375	0.156	0.668
X12-Debt-Equity Ratio	-0.168	0.644	0.065	0.859
X13-Long Term Debt-Equity Ratio	0.058	0.873	0.482	0.158
X15-Fixed Assets Turnover ratio	-0.515	0.128	-0.002	0.996
X16-Inventory Turnover ratio	-0.009	0.981	-0.443	0.200
x17-Debtors Turnover ratio	-0.455	0.187	0.635	0.049*
x18-Interest Cover Ratio	0.525	0.119	0.466	0.174

****Correlation is significant at the 0.01 level (p<0.01) *Correlation is significant at the 0.05 level (p<0.05)**

The correlation coefficient matrices of the selected variables with the dependent variable, i.e., Current Ratio of selected Industries for the periods from 2008-09to to 2017-2018 .

In **Suryalakshmi Cotton Mills Ltd(SCML)**, four namely X₅, X₁₂, X₁₃, X₁₇ are at one percent level have significant positive correlation with profitability of the company. In **Kallam Textiles Ltd(KATL)** , only one variable namely X₁₃-Long Term Debt-Equity Ratio have significant positive correlation with profitability of the company. In **Rajapalayam Mills Ltd(RAML)**, five variables namely X₁, X₂, X₁₂, X₁₃, and X₁₅ having at significant correlation with profitability of the company. In **Ambika Cotton Mills Ltd(AMCL)**, six variables namely X₇, X₈, X₉, X₁₀, X₁₁, X₁₈ are at one percent level have significant positive correlation with profitability of the company. In **Ginni Filaments Ltd(GIFL)**, three variables namely X₅, X₁₂, X₁₃ are having significant correlation with profitability of the company. In **DCM**, four variables namely X₂- Sales/Net Assets , X₄-PAT/PBIDT(%) ,X₉-Price/Cash EPS (P/CEPS),X₁₀-EV/EBIDTA are having significant correlation with profitability of the company. In **Super Sales India Ltd(SSIL)**, only

one variable namely Debtors Turnover ratio is at five percent have significant positive correlation with profitability of the company.

1.6.SUGGESTIONS

The selected textile groups of companies are the capital intensive in nature but the policy of purchase of fixed assets should be carefully planned and reviewed so that the funds may be properly utilized. For regular supply of raw materials and the final product infrastructure facilities require further improvement. The selected textile companies should try to match the amount of working with the sales trends. Where there is a deficit of working capital, they should try to build on adequate amount of working capital. Where, there is an excessive working capital, it should be invested either in trade securities or should be used to repay the borrowings. The quantum of sales generated should be improved impressively in order to enjoy better operational efficiency of the assets and capital employed. Finally forstrengthen the financial efficiency, long-term funds have to be used to finance core current assets and a part of temporary current assets. It is better if the companies can reduce the over sized short term loans and advances and eliminate the risk by arranging finance regularly

1.7 CONCLUSION

Today, rapid changes in the World trading system have endangered the stability of the textile industry and created an atmosphere of uncertainty and instability in the industry. But it is also a fact that turbulence is necessary for any change in the system. it should be observed form the present study that liquidity position of the selected industry is influenced by different variables and ratios. The management and policy makers must have maximum awareness about these ratios to improve the profitability of the industry in the long run.

1.8 REFERENCES

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