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A Study on Financial Performance of Selected Textile Companies in India

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ABSTRACT

In this paper an attempt is made to know the profitability and financial position of selected textile companies, for accomplishment of the objective, the data collected from the annual reports from 2001-2010 from the selected textile companies in India, the collected data is analyzed and computed to fit for drawing inferences, this study utilizes various ratios analysis, correlation, trend, compounded growth rate. The results revels that there is a close relationship exist between the financial performances of the selected textiles companies in India and the proportion of changes in return on total assets.

KEYWORDS: Financial performance, Profitability Ratios, Correlation, Compounded Growth Rate.

Introduction

Indian textile industry has witnessed a consistent performance drive during the past few years and has played a major role in the development of India. Indian Textile Industry is one of the leading textile industries in the world. India earns about 30 per cent of its total foreign exchange through textile exports. Further, it also contributes nearly 14 per cent of the total industrial production and around 3 per cent to the GDP (Gross Domestic Product) of the country. Today, the Indian textile industry employs around 35 million personnel directly and it accounts for 21 per cent of the total employment generated in the economy.

Globalization of the Indian textile industry has also facilitated introduction of modern and efficient manufacturing machineries and techniques in the Indian textile sector. Thus, much of India's economic growth is largely dependent on the textile manufacturing and exports. Financial Performance is the blue print of the financial affairs of a concern and it reveals the organization's ability to translate its financial resources into mission related activities. The financial performance of the textile industry is analyzed through production, cost, sales and profitability analysis.

Statement of Problem

Though the Globalization facilitates the efficient and modern techniques for the development of the textile industry it has its own constraints like it pay the way for the higher competition from other developing countries, especially China and the threat of International labor and Environmental Laws etc., it is difficult to be the leader in the world market. In this background 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 assistance given to this sector. Therefore, the present study is undertaken to make the financial performance appraisal of the selected textile companies in Indian. Continuous Quality Improvement is the need of the hour as there are different demand patterns all over the world.

Objectives of the study

- Ø To analyze the financial performance of the selected textile companies.
- Ø To examine the analysis of growth trend of selected textile companies.
- Ø To measure the extent of influence of the factors responsible for the profitability
- Ø To offer suggestions for the improvement of textile companies in India.

Research methodology

The present research study is an analytical one. The study is based on the secondary data collected from books, journals, and the Prowess' corporate databases developed by CMIE (Centre for Monitoring Indian Economy) for five companies only. The statistical tool used in the analysis of data is Ratio Analysis, Correlation Analysis, Trend Analysis , Compound Growth Rate Analysis and Path Analysis. The following variables are identified by the researcher to assess the financial performance through profitability X_1 Quick ratio, X_2 Creditors turnover ratio, X_3 Inventory turnover ratio, X_4 Debtors turnover ratio, X_5 Debt-Equity Ratio, X_6 Current ratio, X_7 Long term Debt-Equity ratio, X_8 Fixed assets turnover ratio, X_9 Interest cover Ratio, X_{10} Return On Capital Employed (ROCE), X_{11} Return On Net Worth(RONW)

Limitations

- Ø The study carries all the limitations inherent with the secondary data and financial information.
- Ø The study is restricted to selected companies only for the period of ten years.
- Ø Various accounting and statistical tools extensively used for the present study have their own incidental limitations.

Review of literature

Yimin Zhang and Tianmu Wang (2010) have considered the cost structure, profitability and productivity of the Chinese textile industry and estimated the impacts of RMB appreciation on this industry for 1999–2006. It was found that the industry had suffered from very low profit margins and returns on capital. Because input prices have been increasing, particularly since 2001, generating profits had become more difficult for the industry. Nevertheless, the industry achieved substantial productivity growth during the period examined. Although at an inadequate level, the profitability of the industry did show some signs of improvement.

Table 1 Correlation analysis between selected variables with return on the total assets .

Variables	Addi Industries Ltd		Bhandari Hosiery Exports Ltd		K-Lifestyle Industries Ltd		Mangalam Ventures Ltd		Tatia Global Venture Ltd	
	R	p-value	r	p-value	r	p-value	r	p-value	R	p-value
X_1	0.152	0.338	0.774	.004**	-0.384	0.137	0.13	0.361	-0.605	.032*
X_2	-0.828	.002**	-0.935	.000**	-0.803	.003**	-0.819	.002**	0.638	.023*
X_3	0.871	.001**	0.858	.001**	0.73	.008**	0.121	0.37	0.114	0.377
X_4	0.394	0.13	0.874	.000**	0.845	.001**	0.672	.017*	-0.425	0.11
X_5	0.391	0.132	0.55	.050*	-0.077	0.416	-0.776	.004**	-0.082	0.411

X_6	-0.719	.010**	0.584	.038*	-0.793	.003**	0.128	0.362	0.226	0.265
X_7	-0.118	0.373	0.357	0.155	-0.026	0.472	-0.738	.007**	-0.441	0.101
X_8	0.911	.000**	0.872	.001**	0.835	.001**	0.776	.004**	-0.056	0.439
X_9	0.735	.008**	0.58	.039*	0.708	.011*	0.893	.000**	0.079	0.414
X_{10}	0.647	.022*	0.898	.000**	0.521	0.061	0.306	0.195	0.685	.014*
X_{11}	0.816	.002**	0.82	.002**	0.381	0.138	-0.269	0.226	-0.299	0.201

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

The above table reveals the correlation coefficient matrices of the selected variables with the dependent variable, i.e., return on total assets of selected for the periods from 2001 to 2010.In Addi Industries Ltd, seven variables namely X_2, X_3, X_6, X_8, X_9, X_{10} and X_{11} have significant positive correlation with profitability of the company. In Bhandari Hosiery Exports Ltd, ten variables namely, X_1, X_2, X_3, X_4, X_5, X_6, X_8, X_9, X_{10} and X_{11} have significant positive correlation with profitability. In K-Lifestyle Industries Ltd, six variables namely X_2, X_3, X_4, X_6, X_8 and X_9 have significant positive correlation with profitability. In Mangalam Ventures Ltd, six variables namely X_2, X_4, X_5, X_7, X_8 and X_9 have significant positive correlation with profitability and in Tatia Global Venture Ltd, three variables namely X_1, X_2 and X_{10} have significant positive correlation with profitability of the company.

Table 2
Trend analysis – using method of least square for prediction for the year 2015 by total assets

Year	Addi Industries Ltd	Bhandari Hosiery Exports Ltd	K-Lifestyle Industries Ltd	Mangalam Ventures Ltd	Tatia Global Venture Ltd
2001	45.5169	8.4167	748.956	12.5093	11.094
2002	42.3465	11.2235	730.325	12.7512	11.4207
2003	39.1761	14.0302	711.693	12.9932	11.7473
2004	36.0056	16.8369	693.061	13.2351	12.074
2005	32.8352	19.6436	674.43	13.477	12.4007
2006	29.6648	22.4504	655.798	13.719	12.7273
2007	26.4944	25.2571	637.167	13.9609	13.054
2008	23.3239	28.0638	618.535	14.2028	13.3807
2009	20.1535	30.8705	599.903	14.4448	13.7073
2010	16.9831	33.6773	581.272	14.6867	14.034
2015	1.131	47.7109	488.113	15.8964	15.6673

It is shown that the trend movement for the year 2015 the total assets will be the highest in K Life Style Industries ltd by 488.113. The total assets will be the lowest in Addi Industries Ltd by 1.131.

Table 3
Trend analysis – using method of least square for prediction for the year 2015 by sales

Year	Addi Industries Ltd	Bhandari Hosiery Exports Ltd	K-Lifestyle Industries Ltd	Mangalam Ventures Ltd	Tatia Global Venture Ltd
2001	63.5275	1.0516	249.665	18.4244	35.2633
2002	57.4529	10.4546	264.295	19.9201	30.3685
2003	51.3784	19.8576	278.925	21.4158	25.4738
2004	45.3038	29.2605	293.554	22.9115	20.5791
2005	39.2293	38.6635	308.184	24.4072	15.6844
2006	33.1547	48.0665	322.814	25.9028	10.7896
2007	27.0802	57.4695	337.444	27.3985	5.8949
2008	21.0056	66.8724	352.073	28.8942	1.0002
2009	14.9311	76.2754	366.703	30.3899	-3.8945
2010	8.8565	85.6784	381.333	31.8856	-8.7893
2015	-21.516	132.693	454.482	39.3641	-33.263

It is shown that the trend movement for the year 2015 the sales will be the highest in K Life Style Industries Ltd by 454.482 and lowest in Tatia Global Venture Ltd by -33.262.

Table 4
Trend analysis – using method of least square for prediction for the year 2015 by operating profit

Year	Addi Industries Ltd	Bhandari Hosiery Exports Ltd	K-Lifestyle Industries Ltd	Mangalam Ventures Ltd	Tatia Global Venture Ltd
2001	7.02673	0.57891	-22.1689	3.01727	-0.06309
2002	6.07945	1.11048	-15.4405	2.97521	-0.04418
2003	5.13218	1.64206	-8.7121	2.93315	-0.02527
2004	4.18491	2.17364	-1.9836	2.89109	-0.00636
2005	3.23764	2.70521	4.7448	2.84903	0.012545
2006	2.29036	3.23679	11.4732	2.80697	0.031455
2007	1.34309	3.76836	18.2016	2.76491	0.050364
2008	0.39582	4.29994	24.9301	2.72285	0.069273
2009	-0.55145	4.83152	31.6585	2.68079	0.088182
2010	-1.49873	5.36309	38.3869	2.63873	0.107091
2015	-6.23509	8.02097	72.029	2.42842	0.201636

The above table shows that the trend movement for the year 2015 the operating profit will be the highest in K Life Style Industries Ltd by 72.029. The operating profit will be the lowest in Addi Industries Ltd by – 6.23509.

Table 5
Compound annual growth rate techniques for hosiery sector during the year 2001 to 2010

Ratio	Addi Industries Ltd	Bhandari Hosiery Exports Ltd	K-Lifestyle Industries Ltd	Mangalam Ventures Ltd	Tatia Global Venture Ltd
Total Assets	-7.563	10.442	-1.816	1.182	7.217
Sales	-7.869	19.780	-2.360	8.720	-36.669
Equity	-0.695	5.622	-0.314	0.000	4.872
Net income	-7.911	18.883	-2.040	8.269	14.247
Total debt	-16.244	22.617	5.342	-5.913	-0.038
Current liabilities	7.372	0.018	-6.548	0.829	-6.674
Current assets	-4.145	12.796	-12.903	5.928	8.620
Long term liabilities	-7.563	10.442	-1.816	1.182	7.217
Cash	65.305	6.514	-21.083	-9.454	34.075
Quick assets	3.136	6.803	-11.400	4.734	11.233
Working Capital	-6.339	19.738	-13.212	-205.862	9.486
Inventory	-11.644	16.838	-14.533	8.299	-4.428
Fixed Assets	-8.638	6.942	6.097	-1.240	-16.997
Operating profit	-13.896	14.105	4.105	-0.262	-219.581

The compound annual growth rate shows that the total assets was highest in Bhandari textile mill at 10.442 Per cent. It was lowest in Addi Industries Ltd -7.563 at per cent. The sales, equity, net income, total debt, current liabilities, current asset, long term liabilities, quick asset, working capital, inventory, fixed asset and operating profit was highest in Bhandari Hosiery Exports Ltd and Cash was highest in Addi Industries Ltd.

Table 6
Direct and indirect effects of independents variables On return on the total assets standardized coefficients - Beta

Variables	Addi Industries Ltd	Bhandari Hosiery Exports Ltd	K-Lifestyle Industries Ltd	Mangalam Ventures Ltd	Tatia Global Venture Ltd
X_1					-0.028
X_2		-0.656			
X_3		0.392	0.187		
X_4					
X_5					
X_6	-0.19				
X_7	0.055				-0.067
X_8				0.294	
X_9	0.196			0.702	
X_{10}	-0				

It can be observed from table that between the Addi Industries Ltd for the period of 2001 -2010 , the following independent factors have significant correlation co-efficient with the ratio of return on total assets X_6 -0.192, X_7 0.055, X_9 0.196, X_{10} -0.002 and other variables have contributed directly towards the ratio of return on total assets whereas it is also indirectly reasonable when the respective variable is combined with other indirect effects but it is found to be statistically not significant. Finally, an insight this reveals that the variables X_7, X_9 contributes towards profitability and X_6, X_{10} reduces the profitability position and for Bhandari Hosiery Exports Ltd X_3 0.392, contributes towards profitability and X_2 0.656 reduces the profitability position. In K-Lifestyle Industries Ltd X_3 0.187 contributes towards profitability and for Mangalam Ventures Ltd X_8 0.249, X_9 0.702 contributes towards profitability. In Tatia Global Venture Ltd X_1 -0.028, X_7 -0.067 reduces the profitability position.

Findings

1. The correlation coefficient matrices of the selected variables with the dependent variable, i.e., return on total assets of selected companies state that almost all the companies creditors turnover ratio, inventory turnover ratio and fixed asset turn over ratio are positively correlated with profitability of the company.
2. The trend movement for the year 2015 of total assets will be the highest in K Life Style Industries ltd and lowest in Addi Industries Ltd.
3. The trend movement for the year 2015 of the sales will be the highest in K Life Style Industries Ltd and lowest in Tatia Global Venture Ltd.
4. The trend movement for the year 2015 for the operating profit will be the highest in K Life Style Industries Ltd and lowest in Addi Industries Ltd.
5. The compound annual growth rate shows that the total asset, sales, equity, net income, total debt, current liabilities, current asset, long term liabilities, quick asset, working capital, inventory, fixed asset and operating profit was highest in Bhandari Hosiery Exports Ltd and Cash was highest in Addi Industries Ltd.
6. The path way analysis reveals that almost all the variables equally contribute to the profitability of the company.

Suggestions

To strengthen the financial efficiency, long-term funds have to be used to finance core current assets and a part of temporary current assets. Improper planning and delays in implementation of projects lead to rise in their cost. So proper planning should be made. Selected textile companies should try to use properly their operating assets and should try to minimize their non-operating expenses.

Conclusion

The study of overall performance of selected textile companies under study registered a fluctuating trend during the study period. The correlation coefficient matrices of the selected variables with the dependent variable, i.e., return on total assets of selected companies state that almost all the companies creditors turnover ratio, inventory turnover ratio and fixed asset turn over ratio are positively correlated with profitability of the company. Hence, it may be concluded that there is a close relationship exist between the financial performances of the selected textiles companies in India and the proportion of changes in return on total assets.

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