



## Working Capital Analysis of the Handloom Co-Operatives in Karur District

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### ABSTRACT

*Handloom industry is one of the oldest industries in India and provided livelihood to millions of rural people across the country. The element of art and craft present in handlooms make it a potential sector for the upper segments of market, domestic as well as global. The central and state governments implemented many schemes to uplift the economic condition of the handloom weavers' by providing incentives in the form of grants and loans. This sector faces competition from the power loom and mill sectors and is also constrained by its continued dependence on the cooperative delivery machinery, and the financial constraints of the state level handloom agencies/apex societies. However, due to effective state intervention in the form of market support, design inputs, as well as other developmental welfare schemes, the handloom sector has been able to withstand tides of competition. . The present study on Working Capital Analysis of the Handloom Co-operative Societies in Karur District aims at analysing working capital management of the societies over the period of ten years.*

**KEYWORDS :** Working Capital, Incentive, Welfare Scheme, Competition, Handloom.

### Introduction

Handloom weaving has a special place in the Indian context because of its traditional role, its longstanding place as a rural livelihood and its cultural role in Indian society. Many millions more are employed in the production chain, employed indirectly or are employed in the input or marketing sides of the sector. The Government implemented many schemes to support the handloom sector. As per the latest census, there are 1.89 lakhs weavers households in Tamil nadu and the sector provides employment to 3.19 lakh weavers and allied workers. During the year 2013-2014, the Weavers Co-operative Societies produced 986.29 lakh metres of handloom cloth valued at Rs.821.35 crores and sold handloom fabrics to the extent of Rs.936.66 crores. There are 1161 Handloom Weavers Co-operative Societies functioning in Tamil nadu. Out of these, 819 Handloom Weavers Co-operative Societies are functioning with profit. All the developmental programmes and welfare schemes of both State and Central Government intended for the handloom weavers are being implemented for the benefit of the Handloom Weavers Co-operative Societies functioning in the State. The present study highlights the status of the working capital of the selected handloom co-operative societies segmenting three categories in terms of sales volume, financial profitability over the period of the years from 1999 to 2009.

### Review of Literature

The researcher undertook a review of literature in order to learn the development of the activities of the handloom sector, the problems faced, their periodic reviews and remedial action.

**Thirthankar Roy (1999)**, in his work on "The Small Scale Weaving Factories in Tamil Nadu and their role in Economic Growth" observed that the entrepreneurs of powerloom units hailed from the handloom group. Handlooms and powerlooms were used to produce the same goods. Particularly, the goods produced in powerlooms were the items reserved for handlooms, but had been encroached upon by the power looms. He asserted that there are about 1,50,000 handlooms in non-competing items such as high quality silk sarees and bedspreads. He also suggested that Government intervention should come in the form of financial incentives for efficient production.

**Sundarsingh (1979)** in his book titled "The Handloom Industry in Madurai City", has conducted a detailed study on the organization, functioning, uniqueness and problems of handloom industry in Madurai in respect of raw-materials, market and financing, covering looms and cooperative sector, master weavers, petty master weavers and independent weavers and exporters.

**V.Murthy and T.R.Madanmohan (2000)**, in their case study, presented the problems associated with the distribution of handloom goods through Co-optex, Tamil Nadu. The suggested measures are: (a) revamping of procurement warehouses to six centres instead of 15 regional warehouses, (b) supplying 70 percent of requirements of a

showroom one month before starting of the season, (c) timely flow of information between regional warehouses and showrooms, (d) meeting sudden demands of the showrooms with personal direct contacts, and, (e) strengthening the information processing through installation of computers in showrooms and warehouses.

**K.Kanaka Durga (2003)** in her study on "Marketing of Handloom in Andhra Pradesh" analyzed that due to lack of efficient production policies and absence of technical knowledge, handloom is failing in introducing new products.

**Thomas Varghese (2004)** Executive President, Grasim Industries said that weaving along with processing emerged as the weak link in the Indian textile industry. These sectors had become a bottleneck in the production of high quality and product, as well as meeting the increasing demands of the garment industry. The Indian industry would have to become competitive to face the international competition, both the domestic and export markets. This could require massive inputs, dedicated efforts, initiatives and support from both the government and industry. Further, he pointed out that the weaving industry would have to meet the requirements of the readymade garment sector for wider width and defect less fabrics, which was possible only with the installation of shuttle less looms and modern technologies.

**Manikam Ramaswami (2005)** in his article in "Sustainable Global Competitiveness of Textile Industry" said that the large outdated weaving sector needs to modernize. The knowledge based south has to leverage on its abundant technical manpower and add value through technology and produce technical textiles. Handlooms do not have to provide us our day-to-day clothing as was necessary during the freedom struggle. Handlooms do not have to provide entry level jobs as the textile industry is all geared to provide employment to crores of people at much better wages than what handloom weavers weaving non exclusive products can get after working for long hours.

**M.Kannadhasan, (2007)** in his work on "Measuring Financial Health of A Public Limited Company Using 'Z' Score Model – A Case Study" and observed that efficiency of the company was mainly the matter of management of working capital, which helps the company to maintain the good financial health.

### Statement of the Problem

The handloom sector plays an important role in the economic development of the rural poor in the state. It contributes significantly by generating more employment opportunities and providing bread to the rural poor. In Karur District, studies on marketing and the socio-logical impact of the handloom industry have been conducted but there was no exercise evaluating working capital position of this sector in the district. Studies relating to the analysis of working capital of the handloom societies operating in Karur District are essential to

evaluate working capital management of these societies.

**Objectives of the Study**

The objectives of the study are

- to evaluate the management of working capital of the selected handloom co-operative societies; and
- to suggest suitable measures for the betterment of the handloom co-operative sector.

**Methodology**

The study is mainly used secondary data collected from registers and annual audited statements of final accounts of the sample societies. In addition, particulars of the performance of the handloom industry at State and national level were secured from annual reports of the Ministry of Textiles, Government of India. There are 36 Handloom Weavers' Co-operative Societies in Karur District, registered with the Assistant Directorate of Handlooms and Textiles, Government of Tamil nadu, Karur. These 36 societies, have been classified into three groups on the basis of their volume of sales and from each group, three societies were selected randomly. Societies which have recorded sales more than Rs.100 lakhs in last three years have been classified as group-A category. They have the advantage of economics of scale operations which decide the success of operations. Societies which

have recorded sales more than Rs.50 lakhs to Rs.100 lakhs sales in last three years have been categorized as Group-B societies. Those societies which have recorded sales less than Rs.50 lakhs during the last three years are classified as group-C societies. They suffer economies of scale of operations.

**Tools of Analysis**

The Turnover of working capital ratio and total operating cycle have been estimated through calculation of component cycles namely, Net raw material cycle, conversion cycle, storage cycle and collection cycle for analyzing the working capital management of the handloom co-operative societies.

**Management of Working Capital**

In the present work, efficiency of the management of working capital of the study units was evaluated through operating cycle analysis. Units having longer operating cycles will have less turn over of working capital affecting the prospects of the business and vice-versa. As most of the capital input will be in the form of current assets in handloom societies, this analysis will be crucial for the handloom societies to determine their efficiency in management of current assets. The following table represents the values component cycles in days for the selected Handloom Co-operative Societies in Karur District.

GROUP	NAME OF THE HAND-LOOM SOCIETY		Net Raw material cycle in days	Conversion cycle in days	Storage cycle in days	Collection cycle in days	Total Operating Cycle in Days	Turnover of Working Capital ratio
GROUP-A	Athur Anna (A1)	Mean	180	16	34	359	589	0.65
		SD	128	11	25	81	129	0.15
		C.V%	72	71	74	23	22	23.53
	Amman (A2)	Mean	-27	9	19	336	337	1.10
		SD	32	6	16	41	42	0.12
		C.V%	-117	71	84	12	12	11.18
	Manmangalam (A3)	Mean	34	17	43	344	438	0.88
		SD	75	8	42	58	114	0.21
		C.V%	222	48	100	17	26	24.24
GROUP-B	Kattipalayam (B1)	Mean	43	13	28	300	384	0.98
		SD	46	14	20	81	70	0.20
		C.V%	108	104	74	27	18	20.37
	Mahakavi Bharathiyar (B2)	Mean	-5	11	20	339	365	1.07
		SD	43	11	19	47	92	0.30
		C.V%	-900	101	95	14	25	28.03
	Sri Mariamman (B3)	Mean	-7	7	11	376	387	1.00
		SD	46	6	9	62	105	0.25
		C.V%	-653	84	77	16	27	24.64
GROUP-C	Perichipalayam (C1)	Mean	3	8	33	347	392	1.02
		SD	48	6	32	55	120	0.32
		C.V%	1604	78	97	16	31	31.72
	Rajendram Sachidanantha (C2)	Mean	27	7	35	366	435	0.89
		SD	73	6	26	35	111	0.24
		C.V%	270	79	74	10	26	27.16
	Thogamalai Padmasala (C3)	Mean	-1414	38	132	358	-886	-1.11
		SD	475	26	114	19	382	2.23
		C.V%	-34	69	87	5	-43	-201.29

Source: Computed by the researcher from the annual audited reports of the societies.

**Comparative Analysis of Group-A Societies**

Among group-A societies, only A1 and A3 societies had positive net raw material cycles and the A2 society posted negative net raw material cycle days in some of the years due to long trade credit cycles. They had to pay the sundry creditors in time; all the three societies have shown crisp conversion cycles thanks to the efforts of the weavers and the management. Similarly the storage cycle days were also quite moderate and were shortened when they improved the volume of production and sales. But all the societies posted very long durations of collection cycles exceeding an average of 300 days. They could not control the long durations in collection cycles due to seasonality of the products and absence of effective dues collection mechanism. If this collection cycle alone is reduced, it may pave way for achieving high turnover of working capital and profits. Likewise, A2 society managed to record comparatively lower operating cycle

days when compared to A1 and A2 societies. A1 society needs to reduce net raw material cycle days and collection cycle days, where as A2 society need to reduce collection cycle days. Effective dues collection mechanism should be evolved by these societies to post shorter duration which may ultimately enhance the overall business prospects.

**Comparative Analysis of Group-B Societies**

Among the societies in group-B, B2 and B3 societies had shown more frequency of negative net raw material cycles while B1 has recorded positive net raw material cycle days. All the three societies have shown better management of conversion cycles and storage cycles. Thanks to the weavers of these societies and the management in striving to achieve crisper days in storage cycle. All the societies have posted longer durations of collection cycles which need

to be addressed through appropriate dues collection and credit sales management system. If these societies work for reducing collection cycle days, it will pave way for achieving high values of working capital turnover ratios strengthening its finances and profits. And all of them have effectively managed the conversion and storage cycles in short durations. These cycles were found to be even crisper when they improved their volume of operations. Among them, B3 society had managed to record better performance in the above two cycles when compared to other two societies. But for the known reasons, all the societies have posted long collection cycles exceeding 300 days in most of the years. Collection cycles need to be controlled and brought down through appropriate measures like installing an effective system in dues collection contacting the buyers frequently for the settlement of dues.

### Comparative Analysis – Group-C Societies

In respect of group-C societies, C1 and C2 societies had positive net raw material cycles in the study period. But C3 society posted very long negative net raw material cycles in all the years affecting its goodwill and was in trouble due to lack luster performance. Performance in respect of conversion cycle was found to be managed fairly well but had shown high variability in between the years. All the societies in group-C had posted shorter durations in respect of conversion cycle days. In respect of storage cycle, effective management of the stocks of finished goods were found in C1 and C2 society which have recorded crisper days. But the same was absent in C3 society which resulted in longer durations in most of the years. Storage cycle days were found to moderate and shorter in respect of C1 and C2 societies. But C3 society had recorded longer durations due to huge stocks of unsold finished goods. It has to strengthen its marketing net work to sell the stocks of finished goods in time. The collection cycles were unduly long in all the three societies leading to longer total operating cycles and lower ratios of turnover of working capital. Appropriate efforts need to be undertaken in order to improve the turnover of working capital.

### Suggestions

The following further suggestions are made for the efficient and betterment of the handloom co-operatives.

1. The present study has identified that all the handloom societies had experienced longer duration of collection cycles exceeding 250 days in most of the years. These societies could not collect the money from the parties who have purchased materials from them. These long collection cycles will affect the turn-over of working capital and thereby profit margins. In order to reduce the collection cycles, the societies may engage professional service firms for dues collections. The professional agency will facilitate the collection of dues in time with nominal charges for the services rendered by them.
2. Despite of several measures by the government in the form of

institutional support and direct financial assistance to the Handloom Weavers, they have been in miserable state due to myriad problems and are sustaining continuous losses. These problems include lack of modern technology, lack of proper financial resources, competition from mill and power loom products. Besides, most of the members of the co-operatives are illiterate and unable to comprehend the schemes and its benefits; therefore there is a need to train members of societies in managing them effectively and the overall business strategies of the handloom societies need to be re-oriented with sound government support.

3. The standard of living of the weavers is significantly low and they are pitiable life due to under-employment. To resolve this problem the government should lend adequate and enormous credit to the weavers at reasonable rate of interest for growth and prospects of the handloom co-operative societies.

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