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# A Financial Performance of Selected Textile Companies in Tamilnadu

KEYWORDS: Textile, Profitability ratio, liquidity ratio, financial position of the companies.

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**ABSTRACT** *Textile industry plays an very important role in economic development of our country. In gobal level Indian textile plays an vital role. Our economy is largely dependent on the textile manufacturing and trade in addition to other major industries. About 27% of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14% to the industrial production and 3% to the gross domestic product of the country. Around 8% of the total excise revenue collection is contributed by the textile industry. So much so, the textile industry accounts for as large as 21% of the total employment generated in the economy. Around 35 million people are directly employed in the textile manufacturing activities. Indirect employment including the manpower engaged in agricultural based raw-material production like cotton and related trade and handling could be stated to be around another 60 million. The study has analysed the profitability and liquidity position of selected textile companies in tamilnadu. It is empirical in nature it selected five major textile companies in tamilnadu such as lakshmi mills company ltd, Coimbatore, rajapalayam mills ltd , Rajapalayam, Sri Nachammai cloth mills ltd , Salem, and Sri Ramakrishna mills Coimbatore as sample of the study. It collected data from annual reports of the selected companies for the period of five years from 2010-2011 to 2014-2015. The study mainly used ratio analysis as statistical tool. The present study of profitability analysis of selected textile companies in tamilnadu was made for the study period of five years from 2010 – 2011 to 2014 – 2015.*

## 1.INTRODUCTION:

A textile is the largest single industry in India (and amongst the biggest in the world). It provides direct employment to around 20 million people. Textile and clothing exports account for one-third of the total value of exports from the country. There are 1,227 textile mills with a spinning capacity of about 29 million spindles. While yarn is mostly produced in the mills, fabrics are produced in the powerloom and handloom sectors as well. The Indian textile industry continues to be predominantly based on cotton, with about 65% of raw materials consumed being cotton. The yearly output of cotton cloth was about 12.8 billion. The manufacture of jute products (1.1 million metric tons) ranks next in importance to cotton weaving. Textile is one of India's oldest industries and has a formidable presence in the national economy in as much as it contributes to about 14 percent of manufacturing value-addition, accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. They include cotton and jute growers, artisans and weavers who are engaged in the organised as well as decentralised and household sectors spread across the entire country.

## 2.OBJECTIVES

- To study the financial performance of selected companies from its financial statements.
- To analyse the liquidity position of the selected companies.

## 3.SCOPE OF THE STUDY

The scope of the study is limited to four selected textile companies in tamil nadu. The research is provide sufficient information of the financial ratio analysis of selected textile companies of tamilnadu. The research is used to know and understand whether the companies has planned the financial requirement properly, to know whether the industry having adequate current asset and own funds to pay off its liabilities, to know the solvency position of the companies.

## 4.RESEARCH METHODOLOGY

The paper focuses on the examining profitability, liquidity and the solvency position of the textile companies. The study is explanatory and empirical in nature. It is based on secondary source of data. It covers the five years financial performance of the selected companies, to know the financial strength of the textile companies. The present study mainly intended to examine the financial performance of lakshmi mills company ltd, Coimbatore, rajapalayam mills ltd , Rajapalayam, Sri Nachammai cloth mills ltd , Salem, Sri Ramakrishna mills Coimbatore.

## 4. REVIEW OF LITERATURE

1. **Shah and Shah** (1980)3 pointed out that the cost of production of sugar factory depends primary on the raw materials, the sugar recovery percentage and the duration of crushing season. They suggested that the cost of sugar production can be brought down by utilizing the processing unit for a maximum period, the proper checking of the machinery of its day to day work, the cost of extra fuel, lubricants, spare parts, consumption of chemicals, and sugar content in final molasses would be reduced, if the steam balance and machinery maintained, proper plans and proper watch in clarification and boiling house stations.

**2.Murali** (1980)4 suggested that break-even analysis is an important aspect for proper planning of sugar industry and controlling its profits. It helps in determining:

Minimum level of operation required to avoid losses, Volume of sale to be undertaken to achieve a profit target, The effect of change in price, change in fixed costs, change in variable cost and change in volume of sales on profit and Assessment of the proportion and sales mix to maximize profits.

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**3.Kohak** (1983)7 have studied the socio-economic effects of a cooperative textile factory on agriculture, cultivators and on agricultural laborers. He had chosen the Niphad Shetkari Shakari sakhar Karkhana in Nasik district. He also studied the impact of textile factory on the development of infrastructure, social services like education, medical facilities, capital formation, and employment generation in the area of operation of textile factory. From this study, he concluded that because of the establishment of the textile factory, the tendency of depending solely on the cash crop like textile. This will help in increasing agricultural productivity and it is the need of the time.

**4.Agarwal** (1983)7 also studied working capital management on the basis of sample of 34 large manufacturing and trading public limited companies for the period 1966-67 to 1976-77. Applying the statistical techniques of ratio analysis, responses to questionnaire and interview, the study concluded that the working capital per rupee of sales showed a declining trend over the years but still there appeared a sufficient scope for reduction in investment in almost all the segments of working capital. An upward trend in cash to current assets ratio and a downward trend in cash turnover showed the accumulation of idle cash in these industries. Almost all the industries had overstocking of raw materials shown by increase in the share of raw material to total inventory while share of semi-finished and finished goods came down.

**5.The Government** (1985)9 of Maharashtra appointed a Committee for studying the problem of sick Co-operative textile factories under the chairmanship of Shri Gulabrao Patil. The Committee found that inadequate supply of cotton yard, lack, substantial increase in the project cost and lack of term loan arrangement, associated with relatively lower owner equity and excess burden of interest on short term loans, lack of experienced technical personal for efficient use machinery, inefficient management and lack of long term price policy for textile cane, were the major reasons for sustained losses from textile production on a continual basis.

**6.Deepak Chawala** (1987) 12 studied an empirical analysis of the profitability of the Indian man made fiber"s Industries. This study examined and explained the trends in the profitability of India man made fiber"s Industries. The relevant data for the study was obtained from 17 firms found in BSE official directory for the period 1963-64 to 1977-78. An increase in the excise duty of man-made fiber"s seems to be associated with the decline in profitability of the industries. Both concentration ratios and vertical integration influence the profitability. However the impact differs for cellulose and petrol chemical based group of fibers.

**7.Pandey and Bhat** (1988)15 "Financial ratio patterns in Indian manufacturing companies: A Multi-Variate Analysis", have analyzed the financial ratio patterns in Indian manufacturing industries, by taking 612 companies from 1965-66 to 1984-85. They have identified three groups of ratio that contain the maximum amount of information about profitability and applied these ratios for the analysis of only manufacturing and processing industries. The three groups of financial ratios used were (i) Return on Investment (profit before depreciation, interest and tax to total tangible assets), (ii) Sales efficiency (profit after tax to net sales) and (iii) Equity intensiveness (retained cash flow operation to tangible net worth). Their study observed a declining trend in profitability in relation to sales, share holder equity and total investment, the impact of which increase with the increasing interest burden. It was also found that these three groups of ratios of profitability showed a consistent declining trend a cross most of the firms.

## 5.RESULT AND DISCUSSION
### 5.1.LIQUIDITY RATIO
### CURRENT RATIO
Formula=current assets/current liabilities

| Company name/Year | 2014-2015 | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | AVG |
|---|---|---|---|---|---|---|
| Lakshmi mills | 3.83 | 3.56 | 3.45 | 3.97 | 3.44 | 3.65 |
| Rajapalayam | 1.89 | 1.71 | 1.69 | 1.36 | 1.05 | 1.54 |
| Nachammai | 4.20 | 4.66 | 4.03 | 3.07 | 1.89 | 3.57 |
| Sri Ramakrishna mills | 0.84 | 0.94 | 1.02 | 2.34 | 2.19 | 1.47 |

Current ratio is the study of current asset and current liability . Table 6 shows that Lakshmi mills and Nachammai has adequate current assets, it is more than the standard 2:1.

### 5.2.SOLVENCY RATIO
### DEBT-EQUITY RATIO
Formula =Debt/equity (or) Long – term debt/Shareholders' fund

| Company name/Year | 2014-2015 | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | AVG |
|---|---|---|---|---|---|---|
| Lakshmi mills | 0.08 | 0.08 | 0.08 | 0.11 | 0.09 | 0.09 |
| Rajapalayam | 0.35 | 0.39 | 0.33 | 0.35 | 1.05 | 0.5 |
| Nachammai | 0.16 | 0.15 | 0.15 | 0.17 | 0.11 | 0.15 |
| Sri Ramakrishna mills | 0.04 | 0.03 | 0.04 | 0.04 | 0.04 | 0.04 |

Debt – equity ratio indicates what proportion of equity and debt the company is using to finance its assets. Debt equity ratio is relationship between debt and equity. Table 5 shows that the Nachammai is high. It means the company arrange fund from debt securities. In this case, Sri Ramakrishna mills debt equity ratio is at minimum point.

### 5.3.PROFITABILITY RATIO
### NET PROFIT RATIO
Formula = Net profit / sales x100

| Company name/Year | | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | AVG |
|---|---|---|---|---|---|---|
| Lakshmi mills | 1.94 | 4.31 | 6.12 | (9.12) | 2.82 | 1.21 |
| Rajapalayam | 3.10 | 6.13 | 6.90 | 0.43 | 7.42 | 4.80 |
| Nachammai | 1.40 | 2.34 | (7.47) | (2.57) | 4.48 | (1.82) |
| Sri Ramakrishna mills | (0.10) | (0.20) | (0.07) | (0.10) | 0.02 | (0.09) |

The net profit ratio of selected units,shows that the percentage of net profit is ups and downs in each year. The average net profit ratio of Rajapalayam textile (4.80%) is higher than the Lakshmi mills , Nachammai and Sri Ramakrishna mills.

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**OPERATING PROFIT RATIO(%)**
Formula = Operating profit / sales x100

Operating profit = gross profit – operating expenses

| Company name/Year | 2014-2015 | 2013-2014 | 2012-2013 | 2011-2012 | 2010-2011 | AVG |
|---|---|---|---|---|---|---|
| Lakshmi mills | 7.49 | 6.51 | 8.57 | (5.09) | 9.60 | 5.42 |
| Rajapalayam | 11.97 | 21.00 | 21.70 | 13.79 | 27.16 | 19.13 |
| Nachammai | 6.60 | 9.15 | 1.13 | 5.46 | 11.40 | 6.75 |
| Sri Ramakrishna mills | (0.18) | (0.11) | (0.01) | (0.16) | 0.09 | 0.07 |

The operating profit ratio is the relationship between cost of good sold and operating expenses. After calculating average of operating profit ratio of selected units, it shows that the Rajapalayam operating ratio is higher than the other selected units.

**FINDINGS**
Current ratio of Lakshmi mills and Nachammai is high and other companies current ratio is too low . . Debt – Equity Ratio of all the companies showsꙍ fluctuating trend during the period 2009-10 to 2013-14 and highest debt equity ratio is in Lakshmi mills. The operating profit ratio of the study shows a fluctuating trend during the period 2010 - 2011 and 2014- 2015 but Sri Ramakrishna cotton mills operating profit ratio shows positive to negative sign, average point shows in positive manner. The net profit of the Nachammai and Ramakrishna cotton mills has declined due to low sales and the highest profit was earned by Rajapalayam Mills compared to other companies.

**SUGGESTION**
Nachammai and Sri Ramakrishna cotton mills have to focus on the profitability and to improve the profitability position both the company have increased the sales or reduces the cost. Sri Ramakrishna mills want to concentrate their equity fund they want to reduce the outsiders fund and improve their liquidity position of the company also. By maintaining the cost and increasing the sales both the company can improve their profitability to satisfy their shareholder and stand in good position in the market.

**CONCULSION**
The study has analyzed the profitability position of selected textile companies in Tamil nadu, some of the important ratios were used to measure the financial performance of selected companies. Based on the above analysis the overall performance of Lakshmi mills and Rajapalayam mills are comparatively good with the other companies. Its financial position is found to be highly satisfactory level in net profit growth on the profitability level. The other selected three-companies performance were not satisfactory positions. Hence these companies will have to strengthen its shareholders funds and working capital to compete and enhancing its current performances in growing textile in global business environment. on the base of the analysis, the parameters are consistent within a wide horizon and with the growth that companies have achieved, the parameters have also responded in a synchronous manner.

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