

Analysis of Profitability and Financial Health of the Handloom Weavers Co-Operative Societies in Karur District



Commerce

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ABSTRACT

The Handloom Sector is one of the largest unorganised economic activities after Agriculture and constitutes an integral part of the rural and semi rural livelihood. Handloom weaving constitutes one of the richest and most vibrant aspects of the Indian cultural heritage. The Handloom Industry in Tamil nadu, with its long tradition of excellence in craftsmanship, occupies a place of eminence in preserving the State's heritage and plays an important role in the economy of the State. Both the Central and State governments are consistently pursuing to bring about improvement in the productivity and marketing of handloom sector still it can be seen that weavers are facing severe livelihood crisis. In order to make the industry profitable the issues should be identified, strength and weaknesses should be analysed. The present study on Profitability and Financial health Handloom Weavers' Co-operative Societies in Karur District' aims at examining the financial activities of the Handloom Weavers' Co-operative Societies in the district,

Introduction

The Handloom Industry in Tamil nadu, with its long tradition of excellence in craftsmanship, occupies a place of eminence in preserving the State's heritage and plays an important role in the economy of the State. Tamil nadu has the pride for its unique Handloom woven products like silk sarees, cotton sarees, furnishing materials, dhoties, lungies and towels. As per the latest census, there are 1.89 lakhs weavers households in Tamilnadu 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 Tamilnadu. 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 overall performance of the selected handloom weavers' co-operative societies segmenting three categories in terms of sales volume, financial profitability, and health over the period of the years from 1998 to 2008.

Statement of the Problem

In Karur District, studies on marketing and the sociological impact of the handloom industry have been conducted but there was no exercise evaluating profitability and the financial health of this sector in the district. Studies relating to the financial performance of the handloom societies operating in Karur District are essential to identify the major issues affecting the performance of the handloom weavers cooperative societies.

Objectives of the Study

- The specific objectives of the study are
- to evaluate the profitability of the selected Handloom Societies in the district;
 - to measure the financial health of the Handloom societies, and
 - to suggest suitable measures for the development of handloom cooperative societies

Methodology

The present study is conducted based on 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 are secured from Policy note – Handlooms, Textiles and Khadi Department Policy Note – Govt. of tamil nadu and the annual reports of the Ministry of Textiles, Government of India. All the registered handloom societies in the Karur District with the Assistant Directorate of Handlooms and Textiles have been classified into three groups on the basis of their volume of sales. Societies which have recorded sales more than Rs.100 lakhs in last three years have been classified as group – I 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 – II societies. Those societies which have recorded sales less than Rs.50 lakhs during the last three years are classified as group – III societies.

Tools of Analysis

The study has employed the following tools for analyzing profitability and the financial health of the handloom co-operative societies. Gross profit percentages, Net profit percentages and Return on Investment have been used for measuring profitability; Altman's 'Z' score has been employed for predicting the financial health of the societies.

Profitability and Financial health of the handloom societies

Profitability analysis will bring out the status of the efficiency of the business operations and it is considered to be the key factor in evaluating the success of the business units. The following table shows the results of the average Gross profit Ratio and the average Net profit Ratio and the Altman's 'Z' Score of the selected Handloom Weavers' Co-operative Societies in Karur District.

Group	Name of the Handloom Weavers' Co-operative Society	Gross Profit Ratio (%)	Net Profit Ratio (%)	Altman's 'Z' Score
Group -I	Athur Anna	11.24	3.08	2.63
	Amman	13.29	5.16	3.05
	Manmangalam Cauvery	10.76	3.05	2.61
Group-II	Kattipalayam	10.78	3.11	2.90
	Mahakavi Bharathiyar	11.57	1.48	2.68
	Sri Mariamman	13.94	1.52	1.81
Group-III	Perichipalayam	11.51	-7.59	1.85
	Rajandaram Sachidanantha	13.09	-3.43	1.39
	Thogamalai Padmasala	13.74	-33.24	1.11

Source: Computed by the Researcher from the audited statement of the societies.

The gross profit percentages of group – I and group – II societies were found to be good with double digit percentages during all the years in the study period. Group – II societies should make appropriate measures to expand the production and sales to sustain the momentum in generating sufficient gross margins. And equally group – III societies have posted equally good gross profit percentages during the study period but with fluctuations.

Net profit percentages recorded by group – I societies were found to be positive and moderate during the study period and as and when the scale of operations were enhanced, correspondingly the net profit percentages were found to be improving. In respect of group – II societies, the net profit percentages were found to be quite moderate due to moderate scale of operations. Societies in group – III have posted losses in most of the years and suffered due to low scale of operations as predicted. .

Return on Investment (ROI)

Return on investment percentages were found to be positive and high in all the societies in group – I. Similar performance could be observed in group – II societies. This was possible due scale of operations posted by these societies. Societies in group – III have posted negative ROI percentages in most of the years and suffered due to low volumes.

Altman's Score

The present study attempted to evaluate the financial health of the societies in three groups through Altman's 'Z' scores. Two out of three societies in group – I category have recorded Altman's 'Z' score exceeding 2.63 indicating its sound financial health. Surprisingly, two societies namely Kattipalayam society and Maha Kavi society in group – II have posted scores above the bench mark level of 2.63 indicating their sound financial health. Mariamman society recorded a score of 1.81 which is very near to bankruptcy level. Of the group – III societies, Rajandaram Sachidanantha society and Thogamalai Padmasala society have recorded very low scores of 1.39 and 1.11 respectively indicating their weak financial health. Perichipalayam society alone in this group had a score of 1.85 which is marginally higher than the bankruptcy level. Thus, societies in group – I and group – II categories have posted 'Z' scores that meet the sound financial health and group – III societies have posted poor scores due to their inability to achieve volumes and profits in the business.

Major Findings of the Study

The study has evaluated the financial performance of the handloom co-operative societies in the context of globalised market environment and the findings are presented as below:

1. In terms of gross profit percentages all societies in group – I, group – II and group – III categories have equally performed well and economies of scale of operations do not have any major impact on gross profit.
2. With regard to net profit percentages, group – I societies have recorded net profits in all the years during the study period. And higher scale of operations helped them to sustain reasonably good net profit percentages. Whereas in group – II societies, the net profit percentages were highly influenced by the value of sales. Societies incurred losses when the values of sales were inadequate. They have to enhance their sales for improving profitability percentages. Group – III societies suffered net losses

in most of the years due to low volume of sales coupled with higher interest and establishment charges. Adequate controls in prime costs and establishment charges are needed by these societies to improve their fortunes.

3. Considering the financial health analysis through Altman's 'Z' score model of the societies, group – I societies have managed themselves successfully to secure high 'Z' scores exceeding '2.63' and the sound financial status was due to higher sales volumes, better liquidity and earnings in all the years. Group – II societies met with mixed trends as two societies were just above the score of 2.63 indicating their ability to achieve favourable healthy 'Z' scores through enhancing sales volumes and sustained earnings. But Sri Mariamman society should take adequate efforts in enlarging sales and earnings. Group – III societies with low scale of operations could get low 'Z' scores particularly two societies namely Rajendram Sachidanantha and Thogamalai Padmasala societies were near bankruptcy levels with low 'Z' scores indicating their weak financial status and related threats. But Perichipalayam society managed to score better even with lesser sales volumes.

Suggestions

From the findings of the study the following suggestions are made for the efficient and better functioning of the handloom co-operatives in Karur District.

1. All the handloom societies in Karur district produce export oriented products and buying houses enforce stringent quality norms to accept the lot. In this context the quality of the finished products need to match the standards stipulated by the buying agencies. Quality of textile goods depend on raw material quality and process quality achieved through hand weaving. Hand weaving impose lot of variations during weaving. Hence, to upgrade the quality levels it is necessary to train the weavers in qualitative methods of production in the handloom.
2. Due to globalization of textile industry the handloom Co-operative Weavers face lot of problems like meagre wages, poor working conditions, inadequate non-monetary benefits and insufficient work throughout the year. So, the Government should take necessary steps to overcome the problems of handloom weavers and improve the social status of the weavers.
2. In order to increase the number of active members in the society the Government can increase the wages of the weavers so that they will be motivated to work continuously.

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