



## The effect of asset utilization in cotton industry. - A comparative study

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### ABSTRACT

*Cotton industry is the oldest and biggest industry in India. Recently the industry facing lots of problems like low level of profit and sales. Therefore cotton industry in a position to minimize its cost of production and utilize its assets at fuller capacity. Unfortunately raw-material and labour are not in the control of management of cotton mills. They have to utilize the fixed assets and current assets at maximum level. Thereby they can improve the performance of the company. The present concentrated on the effect of asset utilization in two listed cotton mills in Andhra Pradesh. Moreover a comparative study has been conducted for this study. The data have collected from Suryavanshi spinning mills Ltd and Sree Akkamamba textile Ltd for a period ten years i.e. from 2002-03 to 2011-12.*

**Keywords : Assets utilisation – Sales – Cotton industry – Performance of the company.**

### Introduction

The performance of the manufacturing company measured on the basis of net profit and sales. If company wants to earn more profit and increase high sales volume the effective usage of asset is utmost important. For that every company has to utilize the fixed assets as well as current assets optimally. When compared to industry standard ratios if the company having more than the standard ratio we can conclude that the performance of the company is good and they are far ahead in industry.

The textile industry in India traditionally, after agriculture, is the only industry that has generated huge employment for both skilled and unskilled labour in textiles. The textile industry continues to be the second largest employment generating sector in India. It offers direct employment to over 35 million in the country. The share of textiles in total exports was 11.04% during April-July 2010, as per the Ministry of Textiles. During 2009-2010, Indian textiles industry was pegged at US\$55 billion, 64% of which services domestic demand.

The present study focused on the effect of asset utilization in cotton industry.

### Objectives of the study

- (1) To analyse the effect of assets utilization in sample cotton mills.
- (2) To examine the level of usage of net assets and fixed assets in sample cotton mills.
- (3) To evaluate the working capital and current assets with the help of sales in sample cotton mills.
- (4) To assess the effectiveness of sales department in sample cotton mills.

### Research methodology

This study is based on secondary data. The data required for this study have been extracted from the annual reports of Suryavanshi spinning mills Ltd, Hyderabad and Sree Akkamamba textiles Ltd, Tanuku. The study covered a period of ten years starting from 2002-03 to 2011-12. The study covers mainly the following aspects of assets utilisation (i) Total assets, (ii) Net assets, (iii) Fixed assets, (iv) Working capital and (v) Current assets. For this study mean, ratios and percent-

age are used to calculate the prescribed objectives.

### Limitations of the study

This study have restricted to the effective of assets utilization in the sample cotton mills. It does not cover other aspects like profitability, long-term solvency and leverage. Moreover the sample size is two units i.e. 9 percent of total population of 23 listed companies in Andhra Pradesh. The age of fixed assets and depreciation charged on those assets are ignored. Therefore the calculations may show high ratios when compare to new companies or which are purchased plant and machinery recently.

### Analysis of the study

#### Fixed assets turnover ratio:

This ratio measures sales per rupee of investment in fixed assets.

$$\text{Fixed assets turnover ratio} = \frac{\text{Net sales}}{\text{Net fixed assets}}$$

This ratio is supposed to measure the efficiency with which fixed assets are employed – a high ratio indicates a high degree of efficiency in asset utilization and a low ratio reflects inefficient use of assets. However, in interpreting this ratio, one caution should be borne in mind. When the fixed assets of the firm are old and substantially depreciated, the fixed assets turnover ratio tends to be high because the denominator of the ratio is very low.

Table: 1 show that fixed assets turnover ratio in Suryalakshmi spinning mills Ltd and Sree Akkamamba Textiles Ltd. Both companies have an increasing trend in sales value. The sales have been increased from Rs.137.15 crores in 2002-03 to Rs.270.72 crores in 2011-12 in Suryavanshi spinning mills Ltd and Rs.46.51 crores in 2002-03 to Rs. 115.31 crores in 2011-12 in Sree Akkamamba textiles Ltd. As far as concerned to fixed assets, there is a significant increase in Sree Akkamamba textiles Ltd i.e. from Rs. 19.24 crores to Rs. 78.80 crores. But in case of average fixed assets turnover ratio in Suryavanshi spinning mills Ltd is 2.69 times and 1.59 times only in Sree Akkamamba textiles Ltd. The reason behind is

there is no improvement of fixed assets as much as of sales in Suryavanshi spinning mills Ltd.

**TABLE: 1**  
**FIXED ASSETS TURNOVER RATIO IN SURYAVANSHI SPINNING MILLS LTD AND SREE AKKAMAMBA TEXTILES LTD**

(Rs. In crores)						
Year	Suryavanshi spinning mills Ltd			Sree Akkamamba textiles Ltd		
	Sales	Fixed assets	FATOR	Sales	Fixed assets	FATOR
2002-03	137.15	79.15	1.73	46.51	19.24	2.42
2003-04	188.14	75.88	2.48	53.48	20.52	2.61
2004-05	186.68	72.96	2.56	61.28	28.11	2.18
2005-06	231.09	66.96	3.45	64.10	38.73	1.66
2006-07	215.72	70.56	3.06	67.15	90.45	0.74
2007-08	175.70	82.67	2.13	81.38	87.54	0.93
2008-09	160.45	81.98	1.96	82.08	82.19	1.00
2009-10	187.18	77.67	2.41	95.70	76.96	1.24
2010-11	289.12	76.97	3.76	124.30	73.45	1.69
2011-12	270.72	81.47	3.32	115.31	78.80	1.46
Mean	204.20	76.63	2.69	79.13	59.60	1.59

Source: Annual reports of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd.

**Net assets turnover ratio**

Net Asset Turnover is calculated by Sales Revenue divided by Capital Employed.

$$\text{Net assets turnover ratio} = \frac{\text{Net sales}}{\text{Net assets}}$$

The net asset turnover ratio measures the ability of management to use the net assets of the business to generate sales revenue. A well-managed business will be making the assets work hard for the business by minimising idle time for machines and equipment. Too high a ratio may suggest over-trading, that is too much sales revenue with too little investment. Too low a ratio may suggest under-trading and the inefficient management of resources.

Table: 2 depicts net assets turnover ratio in sample cotton mills. The average net assets of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd is Rs. 92.27 crores and Rs. 59.59 crores respectively. The highest value of net assets are recorded in the year of 2008-09 i.e. Rs. 108.72 crores and lowest in the year of 2011-12 i.e. Rs. 70.43 crores in Suryavanshi spinning mills Ltd. The net assets are having increasing trend in Sree Akkamamba textiles Ltd i.e. from 2002-03 to 2007-08. Afterwards it has been decreased from Rs. 90.91 crores in 2007-08 to Rs. 64.06 crores in 2011-12. The average of net assets turnover ratio is 2.27 times and 1.52 times in Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd.

**TABLE: 2**  
**NET ASSETS TURNOVER RATIO IN SURYAVANSHI SPINNING MILLS LTD AND SREE AKKAMAMBA TEXTILES LTD**

(Rs. In crores)						
Year	Suryavanshi spinning mills Ltd			Sree Akkamamba textiles Ltd		
	Sales	Net assets	NATOR	Sales	Net assets	NATOR
2002-03	137.15	84.00	1.63	46.51	22.26	2.09
2003-04	188.14	95.48	1.97	53.48	22.33	2.39
2004-05	186.68	86.68	2.15	61.28	34.28	1.79
2005-06	231.09	75.23	3.07	64.10	43.27	1.48
2006-07	215.72	98.49	2.19	67.15	82.59	0.81
2007-08	175.70	98.78	1.78	81.38	90.91	0.90
2008-09	160.45	108.72	1.48	82.08	87.71	0.94
2009-10	187.18	99.49	1.88	95.70	73.07	1.31
2010-11	289.12	105.43	2.74	124.30	75.46	1.65
2011-12	270.72	70.43	3.84	115.31	64.06	1.80
Mean	204.20	92.27	2.27	79.13	59.59	1.52

Source: Annual reports of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd.

**Total asset turnover**

The total asset turnover ratio measures the ability of a company to use its assets to efficiently generate sales. This ratio considers all assets, current and fixed. Those assets include fixed assets, like plant and equipment, as well as inventory, accounts receivable, as well as any other current assets.

$$\text{Total asset turnover ratio} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

The lower the total asset turnover ratio, as compared to historical data for the firm and industry data, the more sluggish the firm's sales. This may indicate a problem with one or more of the asset categories composing total assets - inventory, receivables, or fixed assets. The small business owner should analyze the various asset classes to determine in which current or fixed asset the problem lies. The problem could be in more than one area of current or fixed assets.

The higher the total asset turnover is, the more effective use of the company's investments regarding total assets. Total Asset Turnover can be very useful if you watch what actually makes up the total assets of the company. A company with low Inventories and strict credit policies to keep Accounts Receivable low will help the Total Asset Turnover look even better. Of course it depends on all of the company's Total Assets.

The average total assets turnover ratio in Suryavanshi spinning mills Ltd is 1.61 times. This ratio is highest in the year 2005-06 i.e. 2.10 times and the lowest in the year 2002-03 i.e. 1.24 times. Comparatively the average total assets turnover ratio in Sree Akkamamba textiles Ltd is less than the Suryavanshi spinning mills Ltd i.e. 1.14 times. The lowest ratio was recorded in the year 2006-07 i.e. 0.63 times and highest in

the year 2003-04 i.e. 1.72 times. The average total assets of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd is Rs.127.45 and Rs.76.82 respectively. (Table: 3)

**TABLE: 3**

**TOTAL ASSETS TURNOVER RATIO IN SURYAVANSHI SPINNING MILLS LTD AND SREE AKKAMAMBA TEXTILES LTD**

(Rs. In crores)						
Year	Suryavanshi spinning mills Ltd			Sree Akkamamba textiles Ltd		
	Sales	Total assets	TATOR	Sales	Total assets	TATOR
2002-03	137.15	110.19	1.24	46.51	28.86	1.61
2003-04	188.14	117.91	1.60	53.48	31.15	1.72
2004-05	186.68	109.19	1.71	61.28	45.14	1.36
2005-06	231.09	109.99	2.10	64.10	57.68	1.11
2006-07	215.72	117.38	1.84	67.15	106.04	0.63
2007-08	175.70	123.78	1.42	81.38	104.79	0.78
2008-09	160.45	125.82	1.28	82.08	98.68	0.83
2009-10	187.18	130.46	1.43	95.70	92.51	1.03
2010-11	289.12	149.46	1.93	124.30	98.13	1.27
2011-12	270.72	180.27	1.50	115.31	105.22	1.10
Mean	204.20	127.45	1.61	79.13	76.82	1.14

Source: Annual reports of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd.

#### Working capital turnover ratio

$$\text{Working capital turn over} = \frac{\text{Sales}}{\text{Working capital}}$$

Working capital is a measure of the margin of protection for current creditors. It reflects the ability to finance current operations. Relating the level of sales arising from operations to the underlying working capital measures how efficiently working capital is employed. A low ratio may indicate an inefficient use of working capital while a very high ratio often signifies overtrading - a vulnerable position for creditors.

The working capital has decreased from Rs.25.57 crores in 2002-03 to Rs. -15.90 in 2011-12 in Suryavanshi spinning mills Ltd. Similarly working capital has decreased from Rs.9.24 crores in 2002-03 to Rs. -14.74 crores in 2011-12. Working capital turnover ratio was highest in the year 2004-05 i.e. 5.98 crores and lowest in the year 2011-12 i.e. -17.03 crores. The average working capital is Rs.36.08 crores and Rs.10.33 crores in Suryavanshi spinning mills Ltd and Sree Akkamamba Textiles Ltd respectively. The average working capital turnover ratio of Sree Akkamamba textile is higher (i.e. 4.38 times) than the Suryavanshi spinning mills Ltd (i.e. 2.66 times). The reason is there is significant improvement in sales. If the company having more working capital it will increase the liquidity position and improve trust and reputation among creditors and outsiders.

**TABLE: 4**

**WORKING CAPITAL TURNOVER RATIO IN SURYAVANSHI SPINNING MILLS LTD AND SREE AKKAMAMBA TEXTILES LTD**

(Rs. In crores)						
Year	Suryavanshi spinning mills Ltd			Sree Akkamamba textiles Ltd		
	Sales	Working capital	WCTOR	Sales	Working capital	WCTOR
2002-03	137.15	25.57	5.36	46.51	9.24	5.03
2003-04	188.14	34.58	5.44	53.48	10.26	5.21
2004-05	186.68	31.21	5.98	61.28	13.15	4.66
2005-06	231.09	42.74	5.41	64.10	15.08	4.25
2006-07	215.72	46.63	4.63	67.15	11.7	5.74
2007-08	175.70	41.06	4.28	81.38	13.37	6.09
2008-09	160.45	35.22	4.56	82.08	12.61	6.51
2009-10	187.18	47.21	3.96	95.70	11.78	8.12
2010-11	289.12	72.45	3.99	124.30	20.8	5.98
2011-12	270.72	-15.90	-17.03	115.31	-14.74	-7.82
Mean	204.20	36.08	2.66	79.13	10.33	4.38

Source: Annual reports of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd.

#### Current assets turnover ratio:

$$\text{Current assets turnover ratio} = \frac{\text{Net sales}}{\text{Current assets}}$$

Net sales include sales after returns, if any, both cash as well as credit. Current assets include the assets like inventories, sundry debtors, bills receivables, cash in hand or at bank, marketable securities, prepaid expenses and short term loans and advances. A high current assets turnover ratio indicates the capability of the organisation to achieve maximum sales with the maximum investment in current assets. It indicates that the current assets are turned over in the form of sales more number of times. As such, higher the current assets turnover ratio better will be the situation.

Current assets turnover ratio has explained in Table: 5. In Suryalakshmi spinning mills Ltd, the current assets are increased from Rs.51.76 crores in 2002-03 to Rs. 93.94 crores in 2011-12. In case of Sree Akkamamba textile Ltd, the above said assets are increased from Rs. 15.84 crores to Rs. 26.42 crores only. But the average of current assets turnover ratio is almost same in sample cotton mills i.e. 2.92 times and 2.91 times.

TABLE: 5						
CURRENT ASSETS TURNOVER RATIO IN SURYAVANSHI SPINNING MILLS LTD AND SREE AKKAMAMBA TEXTILES LTD						
(Rs. In crores)						
Year	Suryavanshi spinning mills Ltd			Sree Akkamamba textiles Ltd		
	Sales	Current assets	CATOR	Sales	Current assets	CATOR
2002-03	137.15	51.76	2.65	46.51	15.84	2.94
2003-04	188.14	57.01	3.30	53.48	19.08	2.80
2004-05	186.68	53.72	3.48	61.28	24.01	2.55
2005-06	231.09	77.50	2.98	64.10	29.49	2.17
2006-07	215.72	65.52	3.29	67.15	35.15	1.91
2007-08	175.70	66.06	2.66	81.38	27.25	2.99
2008-09	160.45	52.32	3.07	82.08	23.58	3.48
2009-10	187.18	78.18	2.39	95.70	31.12	3.08
2010-11	289.12	116.48	2.48	124.30	43.47	2.86
2011-12	270.72	93.94	2.88	115.31	26.42	4.36
Mean	204.20	71.25	2.92	79.13	27.54	2.91

Source: Annual reports of Suryavanshi spinning mills Ltd and Sree Akkamamba textiles Ltd.

### Conclusion

The above analysis reveals that Suryavanshi spinning mills Ltd has performed well in all aspects of asset utilisation i.e fixed assets and current assets. But in average working capital turnover ratio is higher (4.38 times) in Sree Akkamamba textile Ltd when compared to Suryavanshi spinning mills Ltd (2.66 times). Similarly the current assets turnover ratio is almost same in two sample cotton mills i.e. 2.92 times and 2.91 times. Sree Akkamamba textile Ltd has concentrated much on current assets and working capital, whereas Suryavanshi spinning mills Ltd's performance is good at utilization of fixed assets as well as current assets. Therefore the former company has to improve their fixed assets turnover ratio, net assets turnover ratio and total assets turnover ratio significantly.

The current scenario of cotton industry in India is not at all satisfactory level. Every company has to improve their performance. This is possible only with the help of maximum utilization of both assets.

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