INJRI
International Journal of Research Instinct
(Peer-reviewed Journal)

ISSN ONLINE 2348-2095
Research Article

A STUDY OF FINANCIAL ANALYSIS IN TEXTILE SECTOR

[1] **Vasanthi. R** and [2] **Thandayuthapani. A**

[1 & 2] *Asst Professor, PG and Research Department of Management,*
Srimad Andavan Arts and Science College (Autonomous), Tiruchirappalli.

Email : vasanthi0030@gmail.com

Abstract

The textile industry of India plays a substantive role in the economy[1]. This is one of the largest industries in India in terms of employment generation, and earning foreign exchange. The paper focuses on the financial strength of the textile sector in India. And to know that up to what extent textile sector has used their available resources effectively. For this purpose profitability, liquidity and solvency position of textile companies has examined. In this paper comparative ratio analysis technique has used to know the financial soundness of textile companies. The result shows the profitability margins has slightly different due to volatile textiles market and volatility in raw material prices. The liquidity and solvency position is almost same in all the textile companies.

Keywords: Company, Liquidity, Profitability, Solvency, Textile

Introduction

The Indian textile industry is one of the largest in the world with a massive raw material and textiles manufacturing base. Our economy is largely dependent on the textile manufacturing and trade in addition to other major industries. According to the Report of Confederation of India Textile Industry[2] (CITI), 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 4% 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.

A textile is the largest single industry in India (and amongst the biggest in the world), accounting for about 20% of the total industrial production. Textile and clothing exports account for one-third of the total value of exports from the country[3]. 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 power loom 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 m (about 42 billion ft). 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[2] and has a formidable presence in the national economy in as much as it contributes to about 14 per cent 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 growers, artisans and weavers who are engaged in the organized as well as decentralized and household sectors spread across the entire country. The fundamental strength of this industry flows from its strong production base of wide range of fibers / yarns from natural fibres like cotton and silk to synthetic /man-made fibres like polyester, viscose, nylon and acrylic.

Cotton	Second largest cotton and cellulosic fibres producing country in the world.
Silk	India is the second largest producer of silk and contributes about 18% to the total world raw silk production
Man- Made Fibres	The fourth largest in synthetic fibres/yarns globally.

Indian Textile Industry across the Global

*Source Confederation of India Textile Industry (CITI)

According to the Textile board of Tirupur[2], Textile industry enjoys the leading position in the production of polyester viscose yarn and synthetic suiting material as well as processing of low-cost, low-weight fabric. Tirupur has emerged as India's largest manufacturer of cotton fabrics and yarn. Tirupur has been added in the list of Towns of Export Excellence (TEE). Computer Aided Design Centers (CADC) has been established at Tirupur, helping the decentralized and High Power loom units to access new designs and improve the quality of the fabric.

Review of Literature

“Financial performance of Textile industry: A study of listed company of Tamil nadu” states that Coimbatore is known as Manchester of South India.76% of India's total textile market is from Erode (Tex-City or Loom-City of India) and 56% of knitwear exports come from Tirupur[5]**.** Each company could invest on the basis of current performance compared with previous year or with other company. Decision making, additional investment, liquidity position changes in working capital depend upon the performance and return of company reports. Funds are highly required for day to-day business operations of the firm and how to utilize it and in what way should avoid loses from the investment are discussed here plus, it happens by ineffective management. The objective of the paper is to analyze the performance of textile industry in the selected companies from Tamil Nadu. In addition, the data collected from the CMIE and used the tools of ANOVA and descriptive statistics.

“Textile industry productivity and financial efficiency” focused on industries current position and its performance. It concluded the company/ management should try to increase the production, minimize the cost and operating expenses, exercise proper control on liquidity position, reduction of power, fuel, borrowing funds, overheads, interest burden, etc.

South Asia network of economic research institute report on **“Impact of financial crisis on Textile industry of Pakistan”[6] (2015)** March by Imran Alam states when developing countries saw record declines in their stock markets. These declines were registered in those sectors which were dependent on the markets of developed world. Its repercussions were seen in developing countries also. Ongoing financial crisis has affected them through many channels. However, exports, employment and investment are suspected to be affected most. Textile sector is the most important sector of Pakistan’s economy, contributing about 57% to the export earnings and 46% to the employment. The results revealed that rising unemployment rate; high cost of production, lower demand and exchange rate volatility in foreign countries had Unpleasant impact on Pakistan’s export indents. The main cause of the above mentioned deteriorating conditions is said to be the ongoing financial crisis.

A study which analyzed the Gujarat textile industry working capital evaluation on selected five company for the eleven years and performed ratio analysis, descriptive statistics etc. The study concluded with all the company financial performance with sound effective as well as current and quick ratio, current asset on total asset, sales, turnover etc. are analyzed with the help of hypothesis and used ANOVA. In this research also researcher followed this attributes.

Objective of the Study

The objective of the study is to identify the financial position of the textile companies.

1. The paper is focused on analyzing the profitability, liquidity, and solvency position of the selected textile companies.
2. To know at what extent the selected textile companies has used their available resources effectively.

Hypothesis of the Study

H_0 : There is no significant difference in profitability, liquidity and solvency position of the selected textile companies.

H_a: There is significant difference in profitability, liquidity and solvency position of the selected textile companies.

Research Methodology

The paper focuses on the examining profitability, liquidity and the solvency position of textile companies. The study is explanatory and empirical in nature. It is based on secondary source of data. It covers the three years financial performance of the selected companies. Under this study, the researcher has applied comparative ratio analysis to know the financial strength of the textile companies. The researcher has chosen three textile companies of Tirupur i.e. Daisy Apparel Designers(DAD), Cheetah Garments (CG), Primex Clothings Private Limited. (PCPL).

Financial Performance Of The Textile Companies

Daisy Apparel Designers(DAD)

DAD[7] is engaged into manufacturing of synthetic and blended dyed/grey spun yarn, cotton yarn and fabrics (synthetic, blended, denim, knitted and flock fabrics). The company has been operating in both domestic as well as overseas market and the income ratio is around 80:20.The company has also taken recent initiative in the field of denim manufacturing and the contribution has grown from 12% in FY15 to 20% in FY16.Textile manufacturing forms the core activity of the company.

Source Annual Reports of Company

The Company achieved net sales of Rs.1417.22 Crore in FY16 registering a growth of 21% over sales of FY15 The export sales have also increased in absolute terms to Rs.308.23 crore in FY16 over Rs.256.76 crore in FY15. However, the contribution of export sales to the top line has marginally declined to 21.67% in FY16 from 22.72% in FY15.

(in Crores)

Particulars	***2014***	***2015***	***2016***
Net Sales	852.25	1171.53	1417.22
PBDIT	130.96	201.20	159.43
PAT	17.16	56.59	17.08
Cash Profit	75.63	113.72	80.35
Paid Up Capital	39.42	39.42	39.42
Tangible Net Worth	187.02	238.37	251.25

Table -1

Financial Performance (*Daisy Apparel Designers*)

DAD[7] is engaged into manufacturing of synthetic and blended dyed/grey spun yarn, cotton yarn and fabrics (synthetic, blended, cotton and knitted fabrics). It also undertakes job processing for various clients to utilize its processing capacities. The yarn business is major contributor to the top line of the company. In FY16, the yarn business contributed nearly 51% of the net sales, with decrease from the level of 64% as in FY15. P/V Blended Yarn contributed nearly 43% of the total sales and cotton yarn share was nearly 8% of the total sales. The company's fabric business has also increased in FY16.

TNW of the Company increased from Rs.238.36 crore in FY15 to Rs.251.25 crore in FY16, due to plough back of profits net of dividend and dividend tax**.** In FY15, the company has declared dividend of Rs 4.58 crore including dividend tax, and net of the profit has been treated part of net worth. The company has also transferred Rs 10 crore to the General Reserves out of the total profit. The movement of net worth apart from the equity of Rs.39.42 Crore.

Cheetah Garments (CG)

CG[8] is one of the group companies of the LNJ Bhilwara group and was incorporated in 1990 as a Private Limited Company in Tirupur. The company commenced production with an initial capacity of 9 looms for weaving of knitted fabrics blended grey cloth at Tirupur in Tamilnadu. CG is primarily engaged in the manufacturing of knitted fabrics yarn, cotton yarn, cotton blended fabrics and premium range of knitted suiting, readymade and cotton garments. CG enjoys a Trading House status and is an ISO – 9001 certified company. The company is present both in domestic and overseas market, exports to over 10 countries.

The company has aggregated capacity 18192 spindles for yarn manufacturing, 8768 spindles for worsted, Vortex Spinning 400 Positions, 168 looms for fabric weaving with fabric processing capacity of 264 lakhs meter of Cotton and Yarn Dyeing 1382 mts supported by in-house design studio and new product development center as on 31.03.2016.The company also set up a 2.40 MW wind power plant at Tirupur, Tamilnadu for captive consumption and has power purchase agreement with Tamil Nadu Electricity Board.

(in Crore)

Particulars	***2014***	***2015***	***2016***
Net Sales	217.75	270.92	303.64
PBDIT	29.85	35.44	31.93
PAT	3.78	5.66	0.13
Cash Profit	17.40	20.14	14.39
Paid Up Capital	10.29	10.29	10.29
Tangible Net Worth	58.20	63.15	61.30
Net Working Capital	26.23	30.67	33.83

Table -2

Financial Performance *Cheetah Garments (CG)*

Source Annual Reports of Company

Table 2 shows that the net sales gone up to Rs.303.63 crore in FY 16 over Rs.270.92 crore in FY 15, registering a growth of around 12.07%. The export sales have grown by nearly 19% in FY 16 over FY 15.The Company has obtained Eco- Tech- Certification (for balancing eco- colors); this would enable the company to participate more competitively in the export market. The company has maximum sales from fabric which account for 77% of the total sales.

The company has installed 10 Toyota weaving Machines imported from Japan in FY16.The machines have stared commercial production from 01.01.2016. The installation of these looms will increase their production resulting lower dependence on outside job weaving with improved quality. In export, the company is focusing more on exploring new markets and enhancing the volumes in existing markets. The company is also exploring new markets for Vortex yarn. In domestic market, the company is focusing on RMG sector and strengthening of Net Work. CG export sales are marked to most of the Europe and American countries, which are relatively, stable than other parts of the world.

Primex Clothings Private Limited. (PCPL).

PCPL[3] incorporated in 1989 as a Private Limited company at Tirupur, Tamilnadu about 466 kms from Tirupur. **PCPL** commenced business in 1991 and became a Private Limited Company in 1992. The company is engaged in the manufacturing of cotton and blended yarn and cotton fabric. It is one of the oldest Textile mills of our country. The company has been consistently expanding and modernizing its manufacturing facilities since its inception and its present installed capacity is 109344 Spindles, 996 Rotors and 494 looms, Process House etc. and a 10.3 MW Heavy Fuel Oil (HFO) based Captive power plant. The company has further planned for expansion in fabric segment.

The company has in-house R & D Department, whose efforts are at present directed to process control and improving quality standards of the existing products through a reasonably equipped Standards Quality Control Cell and a Chemical Laboratory. The company enjoys the market leadership in Dyed Poplin of 100% Cotton for domestic market. Its market is spread out over the Northern, Central, Southern and Western India, the company has also marked its entry into the Southern India as well. Very recently, the Company entered into suiting / shirting segment and has generated good growth. ***(in Crores)***

Particulars	***2014***	***2015***	***2016***
Net Sales	319.54	431.60	419.82
Other Income	0.00	0.00	0.00
PBDIT	28.67	47.82	4.35
PAT	14.56	153.56	409.80
Paid Up Capital	8.64	8.64	8.64
Tangible Net Worth	92.97	243.06	650.34

Table -3

Financial Performance *Primex Clothings Private Limited. (PCPL).*

Source Annual Reports of Company

The sale of the company is primarily from the sales of yarn and fabrics. The sales for FY 2015 stood at Rs.431.60 crore includingRs.424.52 crore domestic sales and Rs. 7.08 crore export sales. The sale for FY 2016 is at Rs.419.82 witnessing marginal decline of 2.69% visà-vis sales for FY 2015. The sales for FY 2016 comprised of Rs.386.82 crore from domestic market and Rs.33 crore from export market. The decrease in domestic sales attributes to the decrease in the realizable price of Yarn during the second of half of FY 2016. As per the operation model of the company, it had accumulated inventory for six months in October 2015.

However due to ban on the export of cotton the prices of cotton fall sharply at the end of FY 2016. This led to decrease in price of finished Yarn. Further due to export ban on yarn and other factors, company could not realize the prices of yarn at the desired level. However considering the prospects in the export market, company has emphasized on the export sales. The export sales for FY 2016 increased to Rs.33 crore from Rs.7.08 crore for FY 2015. Presently company is exporting yarn to Korea, Taiwan, China, Malaysia, Bangladesh, Vietnam, Nigeria, Colombia, Egypt, Turkey, Tunisia, Hungary, Greece and Israel. Considering the improvement in the market condition of the textile industry, the growth is expected to be more as compared to last year.

Data Interpretation

In the present study for the financial analysis of textile industry different ratio are calculated to find out the profitability position of the company's profit before depreciation, interest and tax to sales (PBDIT) and profit after tax (PAT) to sales is calculated. For examine the ability to pay its outside obligations solvency ratios like Debt service coverage ratio and total outside liabilities / total net worth (TOL/TNW) ratios of the companies are calculated. To know the liquidity position of the company's current ratio has calculated. Table 4 shows the comparative analyses of the textile companies are as be

Profitability

The (*DAD*)[7] profitability margins have decreased in FY 16 over FY 15.The PBDIT has decreased toRs.32.05 crore in FY 16 over Rs.35.44 crore in FY 11.Margin has declined from 13.08% in FY15 to 10.56% in FY16 due to increase in manufacturing expenses and input cost. The profitability margins have also been impacted mainly due to volatile textiles market and volatility in raw material prices. PAT has also decreased from Rs.5.66 crore in FY 15 to Rs.0.13 crore in FY 16. The net profit margin has also decreased from 2.09% in FY 15 to 0.04% in FY 16 due to higher financial cost in FY16. Cash accruals are at Rs.13.88 crore in FY16 and Rs.18.36 crore in FY15. The (CG) has recorded PBDIT of Rs.159.43 crore in FY16 as against Rs.201.20 crore in FY15. The Company's PBDIT margins declined from 17.17% in FY15 to 11.25% in FY16. During the year the company registered net profit of Rs.17.08 crore as against net profit of Rs.56.59 crore in FY15 i.e. decline in PAT margin from 4.83% in FY15 to 1.21% in FY16. The decrease in profitability is mainly due to marginal increase in cost of raw material and direct labour and increase in financial cost. Further during FY16, due to volatility in the market, whole textile sector was hit badly which squeezed the margins.

Source-calculated from annual reports from 2013-2014 to 2015-2016

The **(*PCPL*)**[9] PBDIT for FY 2015 was Rs. 47.82 crore i.e. 11.08% of the net sales. The PBDIT for FY 2016 declined to negative Rs. 4.35 crore i.e. negative 1.04% of the net sales. As a part of business Model Company accumulates the inventory for the period of six months. The company had accumulated cotton in October for the six months at the price of Rs. 56000 per candy (i.e. 356 kg). However due to ban on the export of cotton the prices of the cotton decreased subsequently to the level of approx Rs. 34000 per candy. This led to decrease in the prices of finished Yarn and increase in the prices of inventory accumulated.The cost of sales for FY 2016 at Rs. 427.26 Crore vis-à-vis Rs. 386.15 crore for FY 2015. The net profit for FY 2016 is at Rs. 409.80 crore for FY 2016 as compare to Rs. 153.56 crore in FY 2015. The increase in net profit is mainly on account of income from non operational activity of liquidation of its investments.

Comparative Financial Analysis

Years	**2013-2014**			**2014-15**			**2015-16**		
Particulars (Rs.in cores)	**DAD**	**CG**	**PCPL**	**DAD**	**CG**	**PCPL**	**DAD**	**CG**	**PCPL**
Net Sales	217.75	852.25	319.54	270.92	1171.53	431.60	303.63	1417.22	419.82
PBDIT	29.85	130.96	28.67	35.44	201.20	47.82	32.05	159.43	(4.35)
PAT	3.78	17.16	14.56	5.66	56.59	153.56	0.13	17.08	409.80
Profitability									
PBDIT (%)	13.71%	15.37%	8.97%	13.08%	17.17%	11.08%	10.56%	11.25%	(1.04%)
PAT (%)	1.74%	2.01%	4.56%	2.09%	4.83%	35.59%	0.04%	1.20%	97.61%
Solvency									
TNW (Rs.in cores)	58.20	187.02	92.97	63.15	238.37	243.06	61.31	251.25	650.34
TOL/TNW (in times)	2.50	4.16	1.70	3.09	3.65	0.68	3.28	3.50	0.32
DSCR (in times)	1.60	1.82	-	1.60	1.66	11.77	1.20	1.08	25.07
Interest Coverage(%)	2.71	2.75	4.68	2.81	3.56	8.92	1.72	2.40	(0.86)
Liquidity									
Current Ratio %)	1.21	1.16	1.21	1.18	1.29	2.39	1.20	1.23	1.64

Solvency

Net worth of (***DAD***) has decreased to Rs.61.31 crore in FY 16 over Rs.63.15 crore in FY 15. The decrease in net worth is due to hedging loss of Rs 1.50 crore in FY16. The gearing ratio has slightly increased to 3.28 in FY 16 over 3.09 in FY 15 due to additional term borrowing for installation of Vortex Spinning 400 positions in the FY16 The gearing ratio of the company has improved to 3.28 in FY16 from 3.09 times in FY15 due to surplus profits added to the net worth. The gearing ratio of the company (CG) has improved to 3.50 in FY16 from 3.68 times in FY15 due to surplus profits added to the net worth. The gearing is high on account of various expansions cum modernization projects implemented by the company. But the benefits are likely to accrue in the coming years and with improved operations the scenario is expected to improve. The tangible net worth of ***PCPL*** is at Rs. 650.34 crore as on March 31, 2016 witnessing 167.56% growth vis-àvis Rs. 243.06 crore as on March 31, 2015. The increase in net worth is on account of dilution of company’s investments. The company has realized Rs. 514.03 crore as a part of miscellaneous income. The TOL/TNW as on March 31, 2016 is at 0.32:1 vis-à-vis 0.68:1 as on March 31, 2015.

Liquidity

The current ratio of (***DAD***) was at 1.18:1 in FY15 and 1.20:1 in FY16. The current ratio was on comfortable side. The estimated current ratio is 1.18 in Fy17 and projected 1.20 in Fy18 the current ratio (CG) has marginally reduced from 1.29:1 in FY15 to 1.23:1 in FY16; the current ratio is low in FY16 due to lower raw material holding level. In view of fluctuations in the procurement prices of Polymer / Viscose (PSF/VSF) and cotton, the Company kept lower stock of these materials at the year end, resulting in decline in raw material holding level in FY16. The current ratio (***PCPL***) as on March 31, 2016 is at 1.64:1 as against 2.43:1 as on March 31, 2015. The interest cover during FY 2016 is at negative 0.86:1 vis-àvis 8.92:1 for FY 2015. The decrease in ICR is mainly on account of negative PBDIT realized by the company.

Conclusion

Indian textile industry contributes 14% of the total industrial production of the country. This paper has explored the financial position of textile companies. Financial position of textile companies in India is sound and they are exploring their available resource. The profitability margins has slightly different due to volatile textiles market and volatility in raw material prices. The moreover liquidity position of companies is also sound, they maintained sufficient funds to meet their short term obligations and there total net worth is quiet enough to repay total outside liabilities of the companies, so solvency position is almost same in all the companies. The textile industry has traditionally remained a highly capital intensive industry and therefore general trend is of high gearing ratio. Through the comparative ratios analysis researcher has come to know that the null hypothesis is accepted which shows that there is no significant difference in the profitability, liquidity and solvency position in the selected textile companies.

References

[1] Pandey IM (2007), financial management, vikas publishing house (p) Ltd, new Delhi, India.

[2] The report of ministry of textile (2013)), July, confederation of Indian textile industry.

[3] Shrimali Devendra (2016)"performance of Indian textile and clothing industry in the united states market" Abhinav national monthly refereed, journal of research in commerce and management", vol .2 issue 3,1 Jan.

[4] Annual Reports (2013), Textile Board of India ministry of textile government of India.

[5] Marimuthu,K.N (2016),"Financial performance of textile industry :A study on listed companies of Tamil nadu" international journal of research in management, economic and commerce,vol.2 ,11 nov.

[6] Report of South Asia network of economic research institute (2015), "Impact of financial crisis on Textile industry of Pakistan".

[7] Annual reports of "Daisy Apparel Designers (DAD)" ,from 2013-14 to 2015-16.

[8] Annual reports of "Cheetah Garments (CG)",from 2013-14 to 2015-16.

[9] Annual reports of "Primex Clothings Private Limited. (PCPL)" , from 2013-14 to 2015-16.