



Financial Efficacy of Selected Textile Spinning Mills in India

K.Akilandeswari¹ and Dr. S.B. Gayathri²

¹Ph.D Scholar, PG & Research Department of Commerce, NGM College (Autonomous), Pollachi, Tamilnadu, INDIA

²Associate Professor & Head, Department of commerce – PA, NGM College (Autonomous), Pollachi, Tamilnadu, INDIA

¹Corresponding Author: akila.senthil3@gmail.com

ABSTRACT

India's textiles sector is one of the primary sector contributing to the development of the nation and employing millions. Even today, textiles sector has its contribution for exports around 11 per cent. The Indian Textile Industry contributes 5 per cent to India's Gross Domestic Product (GDP), and 14 per cent to overall Index of Industrial Production (IIP). The textiles industry is primarily labour intensive which is classified in to unorganized and organized sectors. In the first category handloom, handicrafts and sericulture are in place which is mainly operated by small and medium scale entrepreneurs. The organized sector of textile includes spinning, apparel and garments segment which apply modern machinery and techniques such as

economies of scale. Totally the sector employees more than 40 million workers directly and 55 million indirectly .So it is very much important to analyse the financial aspects of the well performing textile units operating in the country. The present article analyses the factors influencing the profitability of the selected textile spinning cotton blended mills based on their net profit.

Keywords-- Textiles sector, Labour intensive, To unorganized and organized sectors, Spinning, Apparel and garments segment, Textile spinning cotton blended mills

I. INTRODUCTION

One of India's oldest industries is Textile Industry and has an important presence in the national economy development . The main sectors of the Indian textile industry includes man-made textiles, cotton textiles including handlooms, silk textiles, woolen textiles, handicrafts, coir, readymade garments, and jute. The Indian textile industry is huge and growing with presence of a number of national and international brands. India has a varied and integrated fabric and apparel industries, and compared to China, Indian fabric and apparel industries has lower labour costs also the cotton prices in India was cheaper. These and other trends mean that India gained a comprehensive competitive edge over China. In our country textile industry has earned a unique place and this industry among one of the earliest to come into existence in India. In overall exports from India, the textile exports played an important role. The Indian textiles industry export consist wide range of items like readymade garments, cotton textiles, handloom textiles, man-made fiber textiles, wool and woolen goods, silk, jute and handicrafts, including carpets. In the global exports of

textiles, India ranked as the third largest exporter. India exports textiles to many countries. USA and the EU account for about two third of India total textiles exports. The Indian textiles industry, currently estimated at around US\$ 108 billion, is expected to reach US\$ 223 billion by 2021. The industry is the second largest employer after agriculture, providing employment to over 45 million people directly and 60 million people indirectly. The Indian Textile Industry contributes 5 per cent to India's Gross Domestic Product (GDP), and 14 per cent to overall Index of Industrial Production (IIP). Indian exports of locally made retail and lifestyle products grew at a compound annual growth rate (CAGR) of 10 per cent from 2013 to 2016.

II. FOREIGN DIRECT INVESTMENT (FDI) IN TEXTILE SECTOR

The textiles sector has witnessed very good investment during the last five years. The industry attracts Foreign Direct Investment (FDI) worth US\$ 3 billion during the last decade Some of the major investments in the Indian textiles industry are as follows:

Raymond has partnered with Khadi and Village Industries Commission (KVIC) to sell Khadi-marked readymade garments and fabric in KVIC and Raymond outlets across India. Max Fashion, a part of Dubai based Landmark Group, plans to expand its sales network to 400 stores in 120 cities by investing Rs 400 crore (US\$ 60 million) in the next 4 years.

Trident Group, one of the leading manufacturers and exporters of terry towel, home textile, yarn and paper in India, has entered into a partnership with French firm Lagardere Active Group, to launch a premium range of home textiles under the renowned French lifestyle brand Elle Decor in India. Welspun India Ltd (WIL), part of the Welspun Group has unveiled its new spinning facility at Anjar, Gujarat - the largest under one roof in India. The expansion project reflects the ethos of the Government of Gujarat's recent 'Farm-Factory-Fabric-Fashion-Foreign' Textile Policy, which is aimed at strengthening the entire textile value-chain. These FDI initiatives reveals India's potential as textile hub in the global market.

III. REVIEW OF LITERATURE:

Yimin Zhang and Tianmu Wang (2010) have considered the cost structure, profitability and productivity of the Chinese textile industry and estimated the impacts of RMB appreciation on this industry for 1999–2006. It was found that the industry had suffered from very low profit margins and returns on capital. Because input prices have been increasing, particularly since 2001, generating profits had become more difficult for the industry. Nevertheless, the industry achieved substantial productivity growth during the period examined. Although at an inadequate level, the profitability of the industry did show some signs of improvement. As long as this trend continued, the industry could have obtained a decent level of profitability. Since 2005, however, the industry has faced a new challenge: the appreciation of the RMB. Based on 2006 data, it estimated the maximum rate of RMB appreciation that the industry would be able to sustain to be approximately 5 percent a year.

Mine Aysen Doyran and Juan Delacruz (2011) suggested that Latin America, should take the presence from the Asian textile industry experience. This paper examines recent statistics in US textile and clothing trade with selected Latin American and Asian economies, comparing data on textile exports from the top 10 suppliers between 1995 and 2003. It evaluates the initial effects of the Agreement on Textiles and Clothing (ATC) of 1995, which provided for a 10-year quota phase-out process for WTO member countries. Since its accession into WTO, China has replaced Mexico as the top supplier of goods to the US. In addition, a brief comparison with other international experience of emerging economies is provided in order to elucidate the relevance of the textile industry in the region and world economy. This empirical

work can be the starting point for policy makers to design long-term policies that are needed for Latin America to compete successfully in the US market and promote the restructuring of clothing and textile production at the country level.

J. R. Raiyani (2012) attempted to assess the financial Health of the sample companies in terms of retained earning to total assets position, networking capital position, Equity-debt position. Return on total assets position and Net sales turnover position of the sample companies. The study on Financial Health of Textile Industry in India has been made by using data from financial statements of all four major players in Textile industry- they are Siyaram Silk Mills Ltd.(SSML), Shri Dinesh Mills Ltd.(SDML), Welspun India Ltd.(WIL), S. Kumars Nationwide Ltd.(SKNL). The period of the study was of seven years from 2002-03 to 2008-09. For the purpose of analysis, the researcher has used Altman's 'Z' score to predict, analyze and compare the financial health of the sample companies and different ratios are calculated, the simple statistical techniques such as mean and ANOVA test were also applied to analyze the consistency, stability and overall trends in the different ratios used in Altman's 'Z' score approach.

IV. SAMPLING DESIGN

According to the prowess corporate database developed by CMIE, (Centre for Monitoring Indian Economy) 24 Textiles - Spinning - Cotton Blended mills are listed in BSE. Out of them five mills have been chosen for the analysis based on their net profit which is listed in the following table:

TABLE 1.1 SAMPLING SELECTION

Sl.no	Company Name	Net Profit (Rs. cr)
1	Vardhman Text	653.05
2	Indo Count	250.71
3	Trident	228.45
4	Ambika Cotton	44.46
5	Nitin Spinners	44.16

SOURCE: CMIE AND PROWESS

Multiple Regression Analysis

Multiple Regression Analysis is a statistical process by which several independent variables are included to predict the dependent variables. It is a functional relationship between a dependent variable and more than one independent variable, where the effect of the independent variables on the dependent variables (profitability) is found out through analysis. This analysis has been applied by the current study in order to lookout for a different combination of variables that explain the variations in the profitability. Multiple Regressions is

applied, by taking the current ratio as the dependent variable and Quick ratio, Interest Coverage Ratio, Net working capital to sales, Raw material turnover ratio, Debtors turnover ratio, Creditors turnover ratio, Distribution expenses ratio, Miscellaneous expenditure ratio, Operating expenses ratio, Net fixed assets turnover

ratio, Debt to equity ratio, Inventory turnover ratio as independent variables. In this study, multiple regression analysis is used to measure the relationship between variables and to identify the factor influencing the profitability.

TABLE No. 1
MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO - VARDHMAN TEXTILES

S.No.	Ratio	Multiple Regression Co-efficient	t' value	p-value
X ₁	Quick ratio	-0.014	-0.085	0.937
X ₂	Interest Coverage Ratio	-0.032	-0.157	0.881
X ₃	Net working capital to sales	0.338	0.843	0.438
X ₄	Raw material turnover ratio	-0.661	-2.859	0.028**
X ₅	Debtors turnover ratio	0.075	0.271	0.812
X ₆	Creditors turnover ratio	-0.19	-0.796	0.451
X ₇	Distribution expenses ratio	0.42	1.161	0.291
X ₈	Miscellaneous expenditure ratio	-0.166	-0.517	0.621
X ₉	Operating expenses ratio	-0.282	-0.804	0.447
X ₁₀	Net fixed assets turnover ratio	-0.164	-0.569	0.587
X ₁₁	Debt to equity ratio	0.07	0.165	0.892
X ₁₂	Inventory turnover ratio	-0.118	-0.35	0.737

**significant at 5% level. * Significant at 1% level

TABLE No. 1.1- ANOVA

	Sum of Squares	df	Mean Square	F-value	p-value	S/NS
Regression	0.083	1	0.083	8.235	0.017**	S
Residual	0.100	10	0.010			
Total	183	11				

**significant at 5% level. * Significant at 1% level S- significant NS – Not significant

TABLE No. 1.2-MODEL SUMMARY

R	R square
0.655	0.453

It is clear that, the multiple regression co-efficient values of Vardhman Textiles. These presented values indicate that one variable is individually contributing significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig (p) values give a rough indication of the impact of each predictor variable namely, Raw material turnover ratio (t- 2.859, p- 0.028, p< 0.05). In connection with this, the R² value in terms of these variables is 45.3 per cent..

TABLE No. 2.0

MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO - INDOCOUNT TEXTILES LTD.

S.No.	Ratio of	Multiple Regression Co-efficient	t' value	p-value
X ₁	Quick ratio	0.059	-0.273	0.799
X ₂	Interest Coverage Ratio	0.105	2.283	0.083
X ₃	Net working capital to sales	0.826	34.707	0.011*
X ₄	Raw material turnover ratio	-0.165	-3.105	0.032**
X ₅	Debtors turnover ratio	0.056	1.555	0.194
X ₆	Creditors turnover ratio	-0.007	-0.12	0.912
X ₇	Distribution expenses ratio	0.008	-0.122	0.91

X ₈	Miscellaneous expenditure ratio	-0.061	-1.145	0.311
X ₉	Operating expenses ratio	-0.329	-5.585	0.012*
X ₁₀	Net fixed assets turnover ratio	-0.035	-0.538	0.618
X ₁₁	Debt to equity ratio	-0.378	-10.163	0.011*
X ₁₂	Inventory turnover ratio	-0.367	-17.651	0.011*

**significant at 5% level. * Significant at 1% level

ANOVA-TABLE No. 2.1

	Sum of Squares	df	Mean Square	F	p-value	S/NS
Regression	1.222	5	.244	681.385	.000*	S
Residual	.002	6	.000			
Total	1.224	11				

**significant at 5% level. * Significant at 1% level S- significant NS – Not significant

TABLE No. 2.2-MODEL SUMMARY

MODEL	R	R- SQUARE
1	0.994	0.991

It is observed that, the multiple regression coefficient values of Indocount Textiles Ltd. These presented values indicate that five variables are individually contribute significantly to variations in the ratio of return on total assets when influence of other variables are kept constant. The t and Sig (p) values give a rough indication of the impact of each predictor variable like Net working capital to sales Ratio(t 34.707, p 0.000, p< 0.01),Raw

material turnover Ratio(t -3.105, p 0.32, p< 0.05), Operating expenses ratio(t -5.585, p .001, p< 0.01),Debt to equity ratio(t -10.163, p 0.000, p< 0.01),Inventory turnover ratio(t-17.653, p- 0.000, p< 0.01). In connection with this, the R²value in terms of these variables is 99 percent. Overall ANOVA results, the p-value is less than the 0.01 (p<0.01) for all the above ratios except Raw material turnover ratio which is at 5 Percent level.

TABLE No. 3.0

MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO - TRIDENT TEXTILES LTD.

S.No.	Ratio of	Multiple Regression Co-efficient	t' value	p-value
X ₁	Quick ratio	.000	-.005	.996
X ₂	Interest Coverage Ratio	.048	.640	.540

X ₃	Net working capital to sales	1.004	22.806	.000*
X ₄	Raw material turnover ratio	.000	.000	0.99
X ₅	Debtors turnover ratio	.004	.071	.945
X ₆	Creditors turnover ratio	.059	.728	.487
X ₇	Distribution expenses ratio	-.063	-.900	.395
X ₈	Miscellaneous expenditure ratio	.059	1.149	.284
X ₉	Operating expenses ratio	-.055	-1.136	.289
X ₁₀	Net fixed assets turnover ratio	-.177	-4.029	.003*
X ₁₁	Debt to equity ratio	.016	.339	.743
X ₁₂	Inventory turnover ratio	-.001	-.008	.993

**significant at 1% level. * Significant at 5% level

TABLE No. 3.1-ANOVA

	Sum of Squares	df	Mean Square	F	p-value	S/NS
Regression	.182	2	.091	260.160	.000*	S
Residual	.003	9	.000			
Total	.185	11				

**significant at 5% level. * Significant at 1% level S- significant NS – Not significant

TABLE No. 3.2 -MODEL SUMMARY

MODEL	R	R- SQUARE
1	0.978	0.969

It shows that, the multiple regression co-efficient values of Trident Textiles Ltd. These presented values

indicate that two variables are individually contributing significantly to variations in the current ratio when

influence of other variables are kept constant. The t and Sig (p) values give a rough indication of the impact of each predictor variable namely, Net working capital to sales (t 22.806 , p .000 , p< 0.01) , Net fixed assets turnover ratio(t 4.029, p .003 , p< 0.05). In connection with

this, the R² value in terms of these variables is 99 percent. Overall ANOVA results, the p-value is less than the 0.01 (p<0.01).

TABLE No. 4.0
MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO – AMBIKA COTTON LTD

S.No.	Ratio of	Multiple Regression Co-efficient	t' value	p-value
X ₁	Quick ratio	.000	-.005	.996
X ₂	Interest Coverage Ratio	.048	.640	.540
X ₃	Net working capital to sales	-.018	-.131	.901
X ₄	Raw material turnover ratio	-.003	-.133	.899
X ₅	Debtors turnover ratio	.007	.089	.932
X ₆	Creditors turnover ratio	.059	.728	.487
X ₇	Distribution expenses ratio	-.063	-.900	.395
X ₈	Miscellaneous expenditure ratio	.059	1.149	.284
X ₉	Operating expenses ratio	1.004	22.806	.000**
X ₁₀	Net fixed assets turnover ratio	-.177	-4.029	.003**
X ₁₁	Debt to equity ratio	.000	.000	0.99
X ₁₂	Inventory turnover ratio	.004	.071	.945

**significant at 1% level. * Significant at 5% level

TABLE No. 4.1 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.182	2	.091	261.160	.000*
Residual	.004	9	.000		
Total	.186	11			

**significant at 5% level. * Significant at 1% level S- significant NS – Not significant

TABLE No.4.2 - MODEL SUMMARY

Model	R	R Square
1	.999	0.972

a. Predictors(constant); X⁴

It is clear that, the multiple regression co-efficient values of Ambika Cotton Ltd. These presented values indicate that two variables are individually contribute significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig (p) values give a rough indication of the impact of

each predictor variable namely, Operating expenses ratio, Net fixed assets turnover ratio (t=22.806, t=4.029 percent p=0.017, p< 0.05). In connection with this, the R₂ value in terms of these variables is 97.2 per cent. Overall ANOVA results, the p-value is less than the 0.05(p<0.05).

TABLE No. 5.0
MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO – NITIN SPINNERS LTD

S.No.	Ratio of	Multiple Regression Co-efficient	t' value	p-value
X ₁	Quick ratio	.763	11.895	.000*
X ₂	Interest Coverage Ratio	-.004	-.051	.961
X ₃	Net working capital to sales	-.037	-.549	.600
X ₄	Raw material turnover ratio	.080	.868	.414
X ₅	Debtors turnover ratio	.032	.463	.658
X ₆	Creditors turnover ratio	-.011	-.185	.858
X ₇	Distribution expenses ratio	-.341	-5.315	.001*
X ₈	Miscellaneous expenditure ratio	-.054	-.876	.410

X ₉	Operating expenses ratio	.007	.089	.932
X ₁₀	Net fixed assets turnover ratio	-.047	-.542	.605
X ₁₁	Debt to equity ratio	-.064	-.848	.424
X ₁₂	Inventory turnover ratio	-.018	-.242	.816

**significant at 5% level. * Significant at 1% level

TABLE No. 5.1 ANOVA

	Sum of Squares	df	Mean Square	F	p	S/NS
Regression	1.785	2	.892	166.116	.000*	S
Residual	.043	8	.005			
Total	1.828	10				

**significant at 5% level. * Significant at 1% level S- significant NS – Not significant

TABLE No.5.2-MODEL SUMMARY

MODEL	R	R SQUARE
1	0.988	0.976

It is clear that, the multiple regression co-efficient values of Nitin Spinners Ltd. It also indicate that two variables are individually contributing significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig (p) values give a rough indication of the impact of each predictor variable

namely, Quick ratio (t 11.895, p 0.000, p< 0.01), Distribution expenses ratio(t -5.315, p 0.001, p< 0.01). In connection with this, the R² value in terms of these variables is 97.6 percent. From the overall ANOVA results, the p-value is less than the 0.01(p<0.01)..

V. CONCLUSION

The future for the Indian textile industry is bright in terms of domestic consumption as well as export demand it is exponentially growing . With consumerism and disposable income on the rise, the retail sector has experienced an exponential growth in the recent years . From the present analysis it is observed that there are number of variables influencing each textile unit selected. It is revealed that in Vardhman Textiles Raw material turnover ratio has the primary influence on current ratio in the same way Indocount Textiles Ltd has Net working capital to sales, Raw material turnover ratio, Operating expenses ratio, Debt to equity ratio and Inventory turnover ratio whereas Trident Textiles Ltd has Net working capital to sales, Net fixed assets turnover ratio and Ambika Cotton

Ltd has Operating expenses ratio, Net fixed assets turnover ratio. Finally Nitin Spinners Ltd has influence over Quick ratio and Distribution expenses ratio. So the textile units should analyse the area in which the other companies performing better by having look at the financial variables.

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