

# A Study on Financial Performance of Textile Industry In Tamilnadu – With Special Reference To Ambika Cotton Mills Ltd

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**Abstract-** Textile industry is one of the important industries in the economy. The study has been undertaken with the aim of analyzing financial performance of Ambika Cotton Mills Limited. The period of study was ten years from 2007-08 to 2016-17. The researcher extracted secondary data from annual reports of the sample company. Financial performance of the company analysed under three broad aspects namely, working capital management, long term financial performance and profitability. Ratio analysis was applied as financial tool to analyse the data apart from mean, standard deviation and co-efficient of variation as statistical tools. It was found that working capital management of the company was satisfactory during the study period in terms of working capital turnover ratio and current ratio except during 2011-12 and 2012-13, since working capital was negative during these years. on the other hands working capital management was not satisfactory in terms of liquid ratio and absolute liquid ratio, since these ratios were less than the standard norms. Long term financial management of the company was also satisfactory during the study period. It was found that the company had higher amount of borrowed capital than owned capital during the first three years of the study period. Profitability position of the company was good during the study period. Especially the operating efficiency was very good during the study period, since operating profit ratio was higher than net profit ratio.

**Keywords-** Financial management, profitability, working capital, solvency and textile.

## I. INTRODUCTION

Manufacturing sector is one of the key sectors in Indian economy. This sector provides raw material, products to ultimate consumers, and machines to other industries. Manufacturing sector is also providing huge employment opportunities to people both directly and indirectly. This sector stands second in providing employment opportunities next to agricultural sector. Many industries are included in manufacturing sector. Clothes are one of the important

necessary goods to people, textile industry is manufacturing clothes. This industry is one of the oldest industries in the country and largest industry, next only to the agricultural industry. From time immemorial Indians have been producing textile products. The archaeological surveys and earlier studies have found out that the people of Harappan civilization had known about weaving and the spinning of cotton four thousand years ago. Initially, Indian textiles were traded between the people in the same location under barter system when common currency had not come into existence. Later they traded with other locations also for currency and later Indian silk and other textile products were sold to other countries also. Towards the end of the 17th century, the British East India Company had begun exports of Indian silks and several other cotton fabrics to other countries. During the early centuries India exported more textile products to other countries and they are popular in those countries. During the late 17th and 18th centuries there were large exports of Indian cotton to the western countries to meet the need of the European industries during the industrial revolution. Consequently there was development of nationalist movement like the famous Swadeshi movement. Now, India is the second largest producer of fibre in the world and the major fibre produced is cotton next to China (Report of National Cotton Council America). Tamil Nadu is famous for textile production. Coimbatore, Erode and Tirupur are the cities where more textile industry is situated. Especially Coimbatore is popularly called the Manchester of Tamil Nadu. Textile Industry of Tamil Nadu is the forerunner in Industrial development and in providing large employment opportunities to the people in the State. The contribution of Tamil Nadu Textile Industry to the National economy is significant. Ambika Cotton Mills Limited is an India-based company engaged in manufacturing and selling specialty cotton yarn. The Company operates through two segments: Textiles and Windmills. Its geographic segments include Europe, Asia, Others and India. The Company manufactures compact and elitwist cotton yarn for hosiery and weaving. As one of the leading textile company the researcher has analysed financial performance of the company.

## II. REVIEW OF LITERATURE

Sathya S and Umarani R (2015) undertook a study to analyse financial performance of spinning mills in Coimbatore. The study found that current ratio of Lakshmi Mill was good and liquid ratio was low for all sample companies. Debt-equity ratio was fluctuating for sample companies, net profit of the sample companies was declined except KPR Mills. Hiralal R Desrani (2013) in the study found that Alok Industries performed better than other companies in terms of profit before depreciation, interest and tax, it was poor in case of Raymond. Net profit ratio was higher in case of Reliance, but average ratio of net profit was negative in case of Raymond and Bombay dying. Meenakshi Anand (2014) in her study evidenced that profitability margins of sample companies had slightly different due to volatile textiles market and volatility in raw material prices. The liquidity and solvency position were almost same in all the textile companies. Asha Sharma and Sharma RB (2011) in their study found that the overall performance of Arvind Mills financial position found highly satisfactory and performed good in net profit growth on the profitability level, short term liquidity position, efficiency level, solvency capacity and investment analysis.

## III. STATEMENT OF THE PROBLEM

Textile is one of the key industries in Indian economy, in terms of providing necessary goods to people, providing large size of employment and business opportunities to people. Ambika Cotton Mills Limited is one of the leading manufacturers of textile in India, which is based in the state of Tamilnadu. Successful running of this type leading companies will help the employees, people and also the economy. Efficient management of a company helps for success of the business concern. All the aspects of management help for successful running of the business, among them financial management is the backbone of all. Efficient financial management is important for success of the business, hence the researcher has made an attempt to study financial management of the sample company.

## IV. OBJECTIVE

The research work has been undertaken with the following objectives.

- To study the working capital management of the sample company.
- To analyse long-term solvency position of the sample company and

- To assess profitability position of the sample company.

## V. METHODOLOGY

The study has been undertaken with the aim of analyzing financial performance of Ambika Cotton Mills Limited, located in Coimbatore of Tamilnadu state. The period of study is ten years spanning from 2007-08 to 2016-17. The researcher required accounting data for analysis. They were extracted from annual reports of the sample company collected from official website of the company. The researcher analysed the financial performance of the company under three broad aspects namely, working capital management, long term financial performance and profitability. Under working capital management, Working Capital Turnover Ratio (WCTR), Current Ratio (CR), Liquid Ratio (LR) and Cash Reserve Ratio (CHR) were used. Under long term financial performance analysis, Debt Equity Ratio (DER), Fixed Assets Turnover Ratio (FATR), Capital Turnover Ratio (CPTR) and Proprietary ratio (PR) were used. Under profitability analysis Net Profit Ratio (NPR), Operating Profit Ratio (OPR), Return on Assets (ROA), Return on Investments (ROI) and Earnings per Share (EPS) were applied. Ratio analysis was applied as financial tool to analyse the data, the researcher also applied mean, standard deviation and co-efficient of variation as statistical tools.

## VI. RESULTS AND INTERPRETATION

This part of the research work presents the results and interpretation of financial performance of Ambika Cotton Mills Limited in terms of working capital, long term solvency and profitability during the study period of ten years from 2007-08 to 2016-17.

Table 1: Working Capital Management

| Year    | WCTR   | CR    | LR    | CHR    |
|---------|--------|-------|-------|--------|
| 2007-08 | 2.60   | 1.97  | 0.27  | 0.20   |
| 2008-09 | 3.34   | 1.89  | 0.14  | 0.03   |
| 2009-10 | 2.94   | 1.82  | 0.32  | 0.06   |
| 2010-11 | 4.38   | 1.72  | 0.24  | 0.03   |
| 2011-12 | -17.36 | 0.81  | 0.11  | 0.02   |
| 2012-13 | -12.41 | 0.76  | 0.06  | 0.01   |
| 2013-14 | 14.29  | 1.27  | 0.19  | 0.02   |
| 2014-15 | 7.65   | 1.62  | 0.23  | 0.03   |
| 2015-16 | 4.36   | 3.18  | 0.78  | 0.09   |
| 2016-17 | 3.53   | 3.17  | 0.97  | 0.20   |
| Mean    | 1.33   | 1.82  | 0.33  | 0.07   |
| SD      | 9.30   | 0.83  | 0.30  | 0.07   |
| CV      | 697.75 | 45.61 | 91.26 | 107.53 |

Source: Computed from Secondary Data

It is known from table 1 that working capital turnover ratio of the sample company was highly fluctuating during the study period. Working capital turnover ratio was good during first three years, and it was negative during 2011-12 and 2012-13, since working capital was negative during the years. Working capital management of the sample company as good during the study period in terms of current ratio, the mean value of current ratio was 1.82, it was near to standard ratio (2:1), but the ratio was found to be poor during 2011-12 and 2012-13. Liquid ratio of the sample company was not good during the study period. The ratio ranged from 0.06 to 0.97 and the mean value of the ratio was also found to be low at 0.33:1. In no year the ratio satisfied standard norms (1.5:1), high amount of inventory causes the lower liquid ratio of the company. A company could manage its working capital efficiently even with low liquid ratio, if it could manage its payments efficiently. Cash reserve ratio of the company ranged from 0.01 to 0.20, the mean ratio was 0.07, it is found to be very low. Hence their working capital management in terms of cash ratio was not satisfactory, since the company held lower amount of cash balance. The results of SD and CV showed that there was high level of deviation in working capital turnover ratio, liquid ratio and cash reserve ratio, whereas the deviation level was moderate in case of current ratio. At the whole working capital management of Ambika Textile Mills Limited was good during the study period. Table 2 presents the results of long term financial performance of the sample company.

Table 2: Long-Term Solvency

| Year    | DER    | FATR  | CPTR  | PR    |
|---------|--------|-------|-------|-------|
| 2007-08 | 1.94   | 0.59  | 1.44  | 0.28  |
| 2008-09 | 1.56   | 0.63  | 1.53  | 0.32  |
| 2009-10 | 1.05   | 0.81  | 1.61  | 0.37  |
| 2010-11 | 0.91   | 0.97  | 1.83  | 0.40  |
| 2011-12 | 0.02   | 1.26  | 1.99  | 0.62  |
| 2012-13 | 0.32   | 1.37  | 1.80  | 0.78  |
| 2013-14 | 0.28   | 1.60  | 1.83  | 0.57  |
| 2014-15 | 0.15   | 1.76  | 1.65  | 0.67  |
| 2015-16 | 0.11   | 1.90  | 1.47  | 0.79  |
| 2016-17 | 0.09   | 2.05  | 1.41  | 0.79  |
| Mean    | 0.58   | 1.29  | 1.66  | 0.56  |
| SD      | 0.75   | 0.53  | 0.20  | 0.20  |
| CV      | 128.91 | 41.07 | 11.98 | 35.76 |

Source: Computed from Secondary Data

It is observed from table 2 that debt equity ratio of the sample company ranged from 0.32 to 1.94, during the first three years the ratio was more than one, since borrowed capital was more than the owned capital of the company. During other years the ratio was less than one, since the company reduced its borrowed capital during the years. Mean

ratio debt equity was 0.58, it showed lower amount of borrowed capital during the study period. Fixed assets turnover ratio of the company ranged between 0.59 and 2.05, the ratio was in increasing trend it shows that the efficiency of the company in efficient use of its fixed assets in order to increase of sales. Capital turnover ratio of the sample company ranged from 1.41 to 1.99, mean value of the ratio was 1.66, these ratios are more than one, since the company efficiently utilized its capital to increase its sales during the study period. Proprietary ratio of Ambika Cotton Mills Limited ranged between 0.28 and 0.79, mean ratio was 0.56, these results shows that efficient long term financial management of the company during the study period. the results of standard deviation and co-efficient of variation indicated that there was high level of deviation in debt equity ratio, it was moderate in case of fixed assets turnover ratio and proprietary ratio, where as deviation was found to be very low in case of capital turnover ratio. At the whole, long term financial management of the company was good during the study period. Table 3 presents the results of profitability position of the sample company during the study period.

Table 3: Profitability Analysis

| Year    | NPR   | OPR   | ROA   | ROI   | EPS   |
|---------|-------|-------|-------|-------|-------|
| 2007-08 | 8.26  | 28.47 | 3.39  | 41.04 | 22.54 |
| 2008-09 | 5.10  | 28.29 | 2.53  | 43.15 | 16.03 |
| 2009-10 | 8.46  | 26.11 | 5.00  | 41.94 | 31.54 |
| 2010-11 | 13.46 | 29.09 | 9.90  | 53.12 | 73.41 |
| 2011-12 | 6.13  | 20.03 | 7.53  | 39.81 | 40.65 |
| 2012-13 | 7.79  | 21.77 | 10.95 | 39.28 | 52.73 |
| 2013-14 | 10.10 | 19.25 | 10.59 | 35.31 | 81.94 |
| 2014-15 | 10.33 | 17.52 | 11.38 | 28.82 | 87.11 |
| 2015-16 | 9.03  | 16.17 | 10.48 | 23.76 | 75.68 |
| 2016-17 | 10.53 | 16.81 | 11.69 | 23.72 | 97.21 |
| Mean    | 8.92  | 22.35 | 8.34  | 37.00 | 57.88 |
| SD      | 2.38  | 5.16  | 3.49  | 9.27  | 28.97 |
| CV      | 26.66 | 23.10 | 41.78 | 25.05 | 50.06 |

Source: Computed from Secondary Data

It is known from table 3 that net profit ratio of Ambika Cotton Mills Limited ranged between 5.10 and 13.46 per cent, mean value of the ratio was 8.92 per cent. it was observed that the ratio was more than 10 during 2010-11, 2013-14, 2014-15 and 2016-17, hence profitability in terms of net profit ratio was good during these years and the ratio was less than ten during other years. Operating profit ratio of the company was higher than net profit ratio during all the years of the study period. The ratio ranged from 16.17 to 29.09 per cent, mean value of the ratio was 22.35 per cent, it seems to be high and therefore operation efficiency of the company as good during the study period. Return on assets ratio of the company was in increasing trend during the study period, it was 3.39 per cent during 2007-08, it increased to 11.69 per cent during 2016-17, it shows that profitability in terms of

return on assets was good during the study period. Return on investment ratio of the company ranged from 23.72 to 53.12 per cent during the study period, mean value of the ratio was 37 per cent, it seems to be high and therefore profitability in terms of return on investment also good for the company, but it was noticed that the ratio was decreasing over the study period. Earnings per share of the company increased from Rs.22.54 per share in 2007-08 to Rs.97.21 in 2016-17, mean value of the ratio was Rs.57.88, it shows efficient profitability position of the company during the study period. Moderate level of deviation was found in the profitability ratios during the study period as shown by the results of SD and CV. At the whole, profitability position of Ambika Cotton Mills Limited was good during the study period.

## VII. CONCLUSION

Ambika Cotton Mills Limited is one of the leading textile manufacturers in the state of Tamilnadu. Financial management is the key aspect of all other activities of a business. The researcher has attempted to analyse financial management of the sample company in terms of working capital, solvency and profitability during the period of ten years from 2007-08 to 2016-17. It was found that working capital management of the company was satisfactory during the study period in terms of working capital turnover ratio and current ratio except during 2011-12 and 2012-13, since working capital was negative during these years. on the other hands working capital management was not satisfactory in terms of liquid ratio and absolute liquid ratio, since these ratios were less than the standard norms. Long term financial management of the company was also satisfactory during the study period. It was found that the company had higher amount of borrowed capital than owned capital during the first three years of the study period. Profitability position of the company was good during the study period. Especially the operating efficiency was very good during the study period, since operating profit ratio was higher than net profit ratio.

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