



## A STUDY ON THE PROFITABILITY PERFORMANCE OF SELECTED TEXTILE INDUSTRIES IN INDIA

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### Abstract

Textile industries are vital parts of the world economy, providing employment to tens of millions, mostly, women workers in nearly two hundred countries. The garment industry is experiencing production and organizational changes globally, with deepening trade activity altering employer – employee relations. The world garment industry is on the threshold of far-reaching institutional changes in the near future. Despite being one of the most global industries in the world, the exemplary trade practices in a globalizing world are still distorted in favour of advanced economics. Over the past 3-4 decades, trade restrictions, price and quality; have come to play a major role in conditioning the patterns of the sector's development. At this juncture, it may be necessary to analyze the financial performance of the textile industry in India and its dependence on the capital structure. Hence the researcher has made an attempt to analyze the financial performance of textile industry in India and to make suitable suggestion towards better financial performances in future.

**Key Words:** Profitability, Textile and financial Performance.

### Introduction

The Textile industry is one of the oldest industries in India. The sector has made significant contributions in terms of forex earnings and employment and is one of the mainstays of the economy. Indian Textile Industry occupies a very important place in the economic life of India. It contributes to the Indian Economy through generation of employment, output and export earnings. Clothing has retained an important place in human life starting from historical era to today's modern world. Textile industry in the contemporary market is a global industry. The history of clothing production can be traced back to the year 2000 BC. Apparel production became one of the large scale economic activities providing significant employment, next to agriculture. The Indian textile and clothing industry provides a valuable wealth of craftsmanship both skilled and semi-skilled work force which is the major contributor towards the development of apparel units.

### Need for the Study

The importance of textile products in the modern life is so obvious that no other manufactured product possesses such diversity of use. However, poor profitability is one of the challenges faced by textile industry. Under utilization of capacity, higher cost of production, industrial disputes and the performance of financial management are the factors that can be attributed to poor profitability of the industry.. In this context an attempt has been made to investigate the design of performance of large scale companies in Indian textile industry for a period of ten years from 2003-04 to 2013-14.

### Statement of the Problem

The researcher attempts to study to what extent the financial ratios are showing the performance of Textile industry over a period of time. This study is to establish the performance of sector analysis and act as key information. Financing the firm's assets is a very crucial problem in every business and as a general rule there should be a proper mix of debt and equity capital in financing firm's assets.

### Purpose of the Study

The study investigated the financial performance of Textile Industries of Listed companies in India

### Objectives

The primary purpose of the present study is to obtain a true insight into the profitability of Indian textile industry. For carrying out the study, the following specific objectives have been set.

1. To analyze the profitability of selected companies in Indian textile industry.
2. To offer suggestions for improving profitability of selected companies in Indian textile industry.

### Scope of the Study

The scope of the present study confines to the financial performance of Textile companies in India listed in the Bombay Stock exchange.

### Limitations of the Study

Every research work is prone to certain limitations and constraints. The number of constraints in respect of time, money, and access to data may be experienced in carrying out this type of study. Besides

- (a) The entire study is based on secondary data and, thus, findings may vary to some extent.



(b) The study is confined only to those companies which are listed on the Bombay Stock Exchange (BSE).

### Review of Literature

Hovakimian et. al., (2001) found that in the long run, firm tends to move towards its target debt ratio. They found that more profitable firms have lower debt ratio due to retention of profit but these profitable firms are expected to raise debt than equity or repurchase equity than debt to offset the effect of retention. They also found that firms with higher current share price relative to book value or past share price or earnings are expected to issue equity than debt. They argue that higher share prices are expected to be experienced by those firms which have better growth opportunities.

Sumi Khare and Saima Rizvi (2011) focused on capital structure characteristics for BSE 100 index companies in India. The panel data methodology, which incorporates both time series and cross-sectional data, has been applied to the actual data to find determinants of leverage ratios for each firm with in the period of 2000-2009. The empirical findings revealed that returns on asset and profit margin on sales significantly affects firms leverage value. Therefore, profitability is one of the most important determinants for leverage. Results also showed that depreciation over operating profit, growth opportunities, size and tangibility do not explain leverage needs. Also, tangibility is found to be negatively affecting leverage

### Study Period

The period of study was held as 2003-04 to 2013-14 in order to have a fairly, reasonably reliable and up -to-date financial data would be available. Secondary data published by CMIE was available for the sample companies under the selected sectors of textile industry.

### Sample Size and Sampling Method

Textile industry in India is broadly categorized in to 27 sectors. The study covers only 15 major sectors. Keeping in view of the scope of the study, it is decided to include all the textile companies under Indian textile industry working during the years 2003 -2004 to 2013- 2014. But, owing to several constraints such as the non-availability of financial statements or the non-working of a company in a particular year and merger and acquisition etc., it is compelled to restrict the number of sample companies to 109. The exhaustive list of textile industry in India from CAPITALINE was cross checked with CMIE database to sort out companies to fit in as the sample for the study. The comprehensive list of companies prepared from the database was modified by sorting out the firms using the following criteria.

- (i) Those were not in operation for a year during the period of study.
- (ii) Those were in operation but non-availability of data for the whole study period.
- (iii) Those that were merged with another company during the period of study.

Hence, Capitaline and CMIE databases proved to be complimentary to finalize the sample for the study. It is worth mentioning that the firms are selected on the basis of companies listed in Bombay Stock Exchange as on 2014.

**Table: 1 Sector-wise Distribution of Sample companies**

S.No	Sector of the Textile Industry	No of companies	Percentage
1	Cotton Yarn 100%	8	7.34%
2	Cotton Yarn Open Ended Spinning	6	5.50%
3	Hosiery Knitwear	6	5.50%
4	Processing	9	8.26%
5	Jute Yarn	3	2.75%
6	Man Made PPFY	4	3.67%
7	Rayon	2	1.83%
8	Readymade Apparel	14	12.84%
9	Silk	1	0.92%
10	Socks	3	2.75%
11	Spinning Cotton Blended	4	3.67%
12	Spinning Synthetic Blended	5	4.59%
13	Texturising	18	16.51%
14	Textile Machinery	8	7.34%
15	Weaving	18	16.51%
Total no of firms		109	100%

Source: Compiled from the CMIE Database



### Analysis of Financial Performance

We attempt hereunder to study the overall performance of Indian industry Profitability and financial performance have been analyzed using their various dimensions, viz., **Gross Profit Ratio, Net Profit Ratio, Return on Equity, Interest Coverage Ratio, Dividend Payout Ratio, Fixed Asset Turnover Ratio, Return on Net Worth and Total Asset Turnover Ratio**

**Table: 2 Distribution of sample companies based on their Gross Profit Ratio**  
(Figures in brackets indicate the percentages within the sector)

Sector	Number of companies by their Gross Profit Ratio				Total Number of Sample companies
	0 -10	10-20	20-40	above 40	
Readymade apparel	7(50%)	3(21.43%)	2(14.29%)	2(14.29%)	14
Spinning Cotton Blended	3(75%)	1(25%)	0	0	4
Cotton yarn 100%	7(87.50%)	1(12.50%)	0	0	8
Cotton yarn open ended spinning	5(83.33%)	0	1(16.67%)	0	6
Hosiery knitwear	5(83.33%)	0	1(16.67%)	0	6
Jute yarn	1(33.33%)	1(33.33%)	0	1(33.33%)	3
Man made ppy	3(75%)	1(25%)	0	0	4
Processing	8(88.89%)	1(11.11%)	0	0	9
Rayon	1(50%)	1(50%)	0	0	2
Silk	0	1(100%)	0	0	1
Socks	2(66.67%)	0	1(33.33%)	0	3
Spinning Synthetic Blended	5(100%)	0	0	0	5
Textile Machinery	2(25%)	2(25%)	2(25%)	2(25%)	8
Texturising	13 (72.22%)	2 (11.11%)	1(5.56%)	2(11.11%)	18
Weaving	14 (77.78%)	4 (22.22%)	0	0	18
Total	76 (69.72%)	18 (16.52%)	8 (7.34%)	7 (6.42%)	109 (100%)

Source: Computed by the Researcher from the CMIE database

Out of 109 sample companies, 76 (69.72%) companies have Gross Profit Ratio less than 10. Another 18 (16.52%) companies Gross Profit Ratio ranges between 10-20, 8 (7.34%) companies ranging between 20-40 and 7 (6.42%) companies ranging above 40. Analysis of individual companies revealed that Advance Lifes of Jute yarn sector has the highest Gross Profit Ratio of 5868.69. This indicates that the gross profit of the company is high compared to other sample companies. S R K Industries (319.22) of Textile Machinery sector, Omnitex Industries (135.37) of Texturising sector, Perfect Octave (132.31) of Readymade Apparel sector are the other companies which has high Gross Profit ratio. Few sample companies have negative ratio which indicates that those companies earn very less or no profit.

**Table: 3 Distribution of sample companies by their Net Profit Ratio**  
(Figures in brackets indicate the percentages within the sector)

Sectors	Number of companies by their Net Profit Ratio				Total Number of Sample companies
	0 -10	10-20	20-40	above 40	
Readymade apparel	8(57.14%)	4(28.57%)	1(7.14%)	1(7.14%)	14
Spinning Cotton Blended	4(100%)	0	0	0	4
Cotton yarn 100%	8(100%)	0	0	0	8
Cotton yarn open ended spinning	6(100%)	0	0	0	6
Hosiery knitwear	5(83.33%)	0	1(16.67%)	0	6



Jute yarn	1 (33.33%)	1 (33.33%)	0	1 (33.33%)	3
Man made ppy	4 (100%)	0	0	0	4
Processing	9 (100%)	0	0	0	9
Rayon	2 (100%)	0	0	0	2
Silk	0	1 (100%)	0	0	1
Socks	2 (66.67%)	1 (33.33%)	0	0	3
Spinning Synthetic Blended	5 (100%)	0	0	0	5
Textile Machinery	4 (50%)	2 (25%)	0	2 (25%)	8
Texturising	16 (88.89%)	1 (5.56%)	0	1 (5.56%)	18
Weaving	18 (100%)	0	0	0	18
Total	92 (84.40%)	10 (9.18%)	2 (1.83%)	5 (4.59%)	109 (100%)

Source: Computed by the Researcher from the CMIE Database

Out of 109 sample companies, 92 (84.40%) companies have Net Profit Ratio is less than 10. Another 10 (9.18%) companies, Net Profit Ratio ranges between 10 and 20, 2 (1.83%) companies in the range of 20-40 and for 5 (4.59%) companies it exceeds 40. Though many companies earn gross profit, only few companies are able to retain the profit after the deduction of all the costs related to the business. Therefore, those companies are advised to take steps on cost reduction which in turn will replicate in their Net Profit. From the analysis, it is observed that Advance Lives of Jute yarn sector has the highest Net Profit Ratio of 4551.09. This indicates that the profit of the company after deducting all the costs of production, administration, and financing is more compared to other sample companies. S R K Industries (275.75) of Textile Machinery sector, Omnitex Industries (136.62) of Texturising sector, Perfect Octave (107.07) of Readymade Apparel sector are the other companies which has high Net Profit ratio. Few sample companies have negative ratio which indicates that those companies earn very less or no profit.

Maral Overseas, Spentex Inds, Winsome Yarns of Cotton Yarn 100% sector, Pasari Spinning, STI India of cotton Yarn open ended spinning sector, KSL and Indus of Hosiery knitwear, Shri Lakshmi of Socks sector, Chandini Text of Textile Machinery sector, Welspun Syntax of Texturising sector are the sample companies which needs to concentrate on the cost reduction. Though the companies earned profit, they suffered loss after deduction of production costs. That is, all these companies earned Gross profit but suffered Net loss.

**Table: 4 Distribution of sample companied sample companies by their Return on equity**  
(Figures in brackets indicate the percentages within the sector)

Sector	Number of sample companies by their Return on equity (ROE)				Total Number of Sample companies
	0 -10	10-20	20-40	above 40	
Readymade apparel	9 (64.29%)	1 (7.14%)	3 (21.43%)	1 (7.14%)	14
Spinning Cotton Blended	2 (50%)	2 (50%)	0	0	4
Cotton yarn 100%	6 (75%)	0	0	2 (25%)	8
Cotton yarn open ended spinning	3 (50%)	0	1 (16.67%)	2 (33.33%)	6
Hosiery knitwear	5 (83.33%)	0	1 (16.67%)	0	6



Jute yarn	0	3(100%)	0	0	3
Man made ppfy	2(50%)	2(50%)	0	0	4
Processing	3(33.33%)	3(33.33%)	1(11.11%)	2(22.22%)	9
Rayon	1(50%)	1(50%)	0	0	2
Silk	1(100%)	0	0	0	1
Socks	1(33.33%)	1(33.33%)	1(33.33%)	0	3
Spinning Synthetic Blended	2(40%)	3(60%)	0	0	5
Textile Machinery	5(62.50%)	3(37.50%)	0	0	8
Texturising	13(72.22%)	4 (22.22%)	1 (5.56%)	0	18
Weaving	16 (88.89%)	1 (5.56%)	1 (5.56%)	0	18
Total	59 (54.13%)	24 (22.02%)	9(8.26%)	7(6.42%)	109(100%)

Source: Computed by the Researcher from the CMIE Database

About 59 (54.13%) of the sample companies have the Return on Equity ratio ranging 0-10 which needs immediate improvement in managing equity ratios and 6.42% of the companies has the ratio ranging above 40 which is considered to be an efficient management.

Analysis reveal that , STI India (188.11) of Cotton yarn open ended spinning sector has the highest Return on Equity Ratio which is considered as a positive growth for the company. Hind syntax (-216.73) of spinning cotton blended sector, KSL and Indus (-249.75) of Hosiery Knitwear sector and SRK Industries (-172.83) of Textile machinery sector are the companies that needs effective management to develop the return on equity.

**Table: 5 Distribution of Sample companies on the basis of Dividend Payout Ratio**  
(Figures in brackets indicate the percentages within the sector)

Sectors	Number of companies by their Dividend Payout Ratio				Total Number of Sample companies
	0 -10	10-20	20-40	above 40	
Readymade apparel	9(64.29%)	2(14.29%)	2(14.29%)	1(7.14%)	14
Spinning Cotton Blended	2 (50%)	2 (50%)	0	0	4
Cotton yarn 100%	4 (50%)	2 (25%)	2 (25%)	0	8
Cotton yarn open ended spinning	5 (83.33%)	0	0	1 (16.67%)	6
Hosiery knitwear	3 (50%)	2 (33.33%)	0	1 (16.67%)	6
Jute yarn	1 (33.33%)	2 (66.67%)	0	0	3
Man made ppfy	1 (25%)	1 (25%)	0	2 (50%)	4
Processing	7 (77.78%)	1 (11.11%)	1 (11.11%)	0	9
Rayon	1 (50%)	0	1 (50%)	0	2
Silk	0	0	1 (100%)	0	1
Socks	2 (66.67%)	1 (33.33%)	0	0	3
Spinning Synthetic Blended	2 (40%)	3 (60%)	0	0	5
Textile Machinery	4 (50%)	0	2 (25%)	2 (25%)	8



Texturising	10 (55.56%)	1 (5.56%)	2 (11.11%)	5 (27.77%)	18
Weaving	9 (50%)	1 (5.56%)	3 (16.67%)	5 (27.78%)	18
Total	60 (55.04%)	18 (16.51%)	14 (12.85%)	17 (15.60)	109 (100%)

Source: Computed by the Researcher from the CMIE Database

Analysis reveals that 60(55.04%) of the sample companies have a dividend payout ratio up to 10. Another 18(16.51%) companies have shown a dividend payout between 10 and 20. Around 14 (12.85%) of the companies recorded a dividend payout of 20 to 30, and the rest of 17 (15.69%) of companies have shown a dividend payout ratio above 30

**Table: 6 Distribution of Sample Companies Based on their Total Assets Turnover Ratio**

(Figures in brackets indicate the percentages within the sector)

Sector	Number of Companies based on their Total Assets Turnover Ratio				Total Number of Sample companies
	<0.5	0.5 to 1	1.00 to 2	above 2	
Readymade apparel	6 (42.86%)	1 (7.14%)	5 (35.71%)	2 (14.29%)	14
Spinning Cotton Blended	0	0	3 (75%)	1 (25%)	4
Cotton yarn 100%	1 (12.50%)	2 (25.00%)	5 (62.50%)	0	8
Cotton yarn open ended spinning	0	2 (33.33%)	3 (50.00%)	1 (16.67%)	6
Hosiery knitwear	1 (16.67%)	3 (50.00%)	1 (16.67%)	1 (16.67%)	6
Jute yarn	1 (33.33%)	1 (33.33%)	1 (33.33%)	0	3
Man made ppfy	0	0	2 (50%)	2 (50%)	4
Processing	0	2 (22.22%)	4 (44.44%)	3 (33.33%)	9
Rayon	0	1 (50%)	1 (50%)	0	2
Silk	0	1 (100%)	0	0	1
Socks	1 (33.33%)	0	2 (66.67%)	0	3
Spinning Synthetic Blended	0	0	5 (100%)	0	5
Textile Machinery	0	2 (25%)	2(25%)	4(50%)	8
Texturising	1(5.56%)	3 (16.67%)	5 (27.78%)	9 (50%)	18
Weaving	2 (11.11%)	2 (11.11%)	11 (61.11%)	3 (16.67%)	18
Total	13 (11.93%)	20 (18.35%)	50 (45.87%)	26 (23.85%)	109 (100%)

Source: Computed by the Researcher from the CMIE Database

Results of analysis indicate that among 109 sample companies, 13(11.93%) have a total asset turnover ratio less than 0.5, 20 (companies having 0.5 to 1, 50 (45, 87%0 with 1 to 2 and 26(23.85%) companies with a total asset turnover of above 2. From the analysis, it is observed that S R K Industries of Textile machinery sector has the highest Total asset turnover ratio of 10.76 which in turn leads to the highest average of this particular sector which is of 2.85. The Silk sector has the lowest





average of 0.50. Sunblue Corp of Readymade apparel need to concentrate on the efficient utilization of the assets to increase the sales income of assets. Because, it has very low Total asset turnover ratio of 0.03. Out of 18 companies in the weaving sector, 11 companies have the total asset turnover ratio between the range of 1.00-2 and 3 companies above 2. As a result, from the table, 23.85% of the sample companies have made maximum utilization of the assets and made maximum sales revenue. About 45.87% of the companies have the asset ratio between 1.00 and 2. About 11.93% of the companies have the asset ratio less than 0.5 which needs to increase the utilization of assets efficiently and to the maximum extent.

### **Findings**

- The Gross profit margin measures company's manufacturing and distribution efficiency during the production process. Advance Lifes of Jute yarn sector has the highest Gross Profit Ratio of 5868.69. Out of 109 sample companies, 76 companies has GPR ratio ranging less than 10.
- The net profit percentage is the ratio of after-tax profits to net sales. Advance Lifes of Jute yarn sector has the highest Net Profit Ratio of 4551.09. This indicates that the profit of the company after deducting all the costs of production, administration, and financing is more compared to other sample companies. Out of 109 sample companies, 92 companies has Net Profit Ratio ranging less than 10. 10 companies Net Profit Ratio ranges between 10-20, 2 companies in the range of 20-40 and 5 companies ha Net Profit Ratio above 40.
- Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. STI India (188.11) of Cotton yarn open ended spinning sector has the highest Return on Equity Ratio which is considered as a positive growth for the company. About 63.30% of the sample companies have the Return on Equity ratio ranging 0-10 which needs immediate improvement in managing equity ratios.
- The dividend payout ratio measures the percentage of a company's profit that is given to shareholders in the form of dividends. The Dividend payout ratio was very high during the year 2008 which means the profit of the companies were high during that period. Under the Manmade PPFY sector, Indo Rama Synthetics has highest dividend payout ratio of 309.98%. Rel. Chemotex holds the least dividend payout under Spinning Sythetics Blended sector.
- Total assets turnover ratio is an asset management ratio that measures the efficiency of a company in generating sales revenue or sales income to the company. S R K Industries of Textile machinery sector has the highest Total asset turnover ratio of 10.76. The Silk sector has the lowest average on total asset turnover ratio. About, 61.11% of the companies have the asset ratio between 1.00 and 2.

### **Suggestion**

- It is suggested that the selected companies can also increase the profitability by improving the operating efficiency through producing better quality textiles.
- The profitability trend of the selected companies in Indian textile industry fluctuate over the very much during the study period. In order to increase the profitability of the companies, it is suggested to control the cost of goods sold and operating expenses. The management should try to adopt cost reduction techniques in their companies to get over this critical situation.

### **Conclusion**

Indian textile industry has been using advanced machines and technologies that enable to retain consistent demand and production of high quality of textiles. The industry has matured with the help of all indicators of performance such as size, capacity utilization, production, consumption and exports after globalization Profitability is on a decline. Financial Strength is not highly satisfactory. The study would be helpful to the companies in framing competitive financial, investment and dividend policies. It will also be useful to the management, consumers and investors to judge the competitive performance of these companies from the point of view profitability and investment.