CHAPTER-4

ANALYSIS OF FINANCIAL EFFICIENCY

4.1 Concept of Efficiency and Performance

The word efficiency as defined by the Oxford dictionary states that: "Efficiency is the accomplishment of or the ability to accomplish a job with minimum expenditure of time and effort".¹

It refers to the internal process that leads to output. It focuses on the means to achieve the desired end. As expressed by Peter Drucker "Doing the things the right way is Efficiency." This denotes the fulfillment of the objective with minimum sacrifice of the available scarce resource.

Futless and speedy compliance to the process or system procedure is a measure of efficiency. Providing a specified volume and quality of service with the lowest level of resources capable of meeting that specification, performance measures and or indicators are required. These include measures of productivity, unit of volume of service etc. These measures help in minimizing of the resources in achieving the organizational objectives i.e., things rightly.

Performance is the execution or accomplishment of work feats etc. or a particular, action, deed or proceeding is refers as performance.² However, the manner in which or the efficiency with which something
reacts or fulfils its intended purpose is defined as performance. Performance may thus, mean different things to different businesses. Success or failure in the economic sense is judged in relation to expectations, return on invested capital and the objective of the business concern.

In understanding the term performance, a clear distinction needs to be drawn between Performance Measures and Performance Indicators. Performance measures need to be based on cat evaluation of the causes and effects of policy intervention whereas a performance indicator is less precise and usually provides only intermediate measure of achievement.

4.2 Financial Performance

Financial Performance is the blue print of the financial affairs of a concern and reveals how a business has prospered under the leadership of its management personnel. Performance of any organization can always be judged in the light of its objectives and the main objective of a bank is to earn profit and to enlarge profit by making the most efficient use of the resources available to them. The Indian Public Sector did run with the objective of maximizing profits. They were making due contribution towards the fulfillment of socio-economic objectives lay down by the government and SEBI.
The financial performance of companies could be analyzed by a composite index of not only quantifiable selected trends and ratios, an analysis of the financial statements, a study of the cash flow and the fund flow statements etc. but also qualitative factors like operational efficiency and effectiveness and socio-economic development of the country.

4.3 Financial Efficiency

Financial Efficiency is a measure of the organization’s ability to translate its financial resources into mission related activities. Financial Efficiency is desirable in all organizations regardless of individual mission or structure.\(^2\) It measures the intensity with which a business uses its assets to generate gross revenues and the effectiveness of producing, purchasing, pricing, financing and marketing decisions.

At the micro level, Financial Efficiency refers to the efficiency with which resources are correctly allocated among competing uses at a point of time.\(^3\)

Financial Efficiency is a measure of how well an organization has managed certain trade offs (risk and return, liquidity and profitability) in the use of its financial resources.\(^4\)

Financial Efficiency is regarded efficiency and is a management guide to greater efficiency the extent of profitability, productivity,
liquidity and capital strength can be taken as a final proof of financial efficiency.

It is interesting to note that sometimes, even sufficient profits can mask inefficiency and conversely, a good degree financial efficiency could be dressed with the absence of profit.

4.4 Operational Efficiency

Operational Efficiency of an organization is the ability utilized its available resources to the maximum extent Operational Efficiency can be judged in the light of financial efficiency. It can be said that neither profitability ratios turnover ratios by themselves provide good indicators measure operational efficiency.

Operational Efficiency of a bank is associated with diverse aspects such as operational cost effectiveness profitability, customer services, priority sector lending, and deployment of credit in rural and backward regions and mobilization of deposits.5

In short, it is said that it is the ability to utilize the available resources in order to carry out operational activities of the aluminum industry, which reveal its success failure in providing textile products to its customers.
4.5 Concept of Profitability

Profitability is the ability to earn profit from all the activities of an enterprise. It indicates how well management of an enterprise generates earnings by using the resources at its disposal. In the other words the ability to earn profit e.g. profitability, it is composed of two words profit and ability. The word profit represents the absolute figure of profit but an absolute figure alone does not give an exact ideas of the adequacy or otherwise of increase or change in performance as shown in the financial statement of the enterprise. The word ‘ability’ reflects the power of an enterprise to earn profits, it is called earning performance. Earnings are an essential requirement to continue the business. So it can be said that a healthy enterprise is that which has good profitability. According to hermenson Edward and salmonson ‘profitability is the relationship of income to some balance sheet measure which indicates the relative ability to earn income on assets employed’. 6

4.6 Profit and Profitability

Profits are the cream of the business without it may not serve the purpose .it is true that “profits are the useful intermediate beam towards which capital should be directed” 2 Weston and Brigham mentioned that “ to the financial management profit is the test of efficiency and a measure of control to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the government a measure of taxable
capacity and a basis of legislative action and the country profit is an index of economic progress national income generated and the rise in the standard of living.”

While profitability is an outcome of profit. In the other words no profit derived towards profitability. “It may be remarked that the profit making ability might denote a constant or improved or deteriorated stare of affairs during a given period, thus, profit is an absolute connotation were as profitability is a relative concepts.”

Profit and profitability are two different concepts, although they are closely related and mutually independent, playing distinct role in business. R.S.Kulshrestha mentioned that “profit in two separate business concerns might be the same and yet more often they note their profitability could differ when measured in terms of the size of investment” as outcome of above statement it can be said that profitability is broader concept comparing to the concept of profit levels of profitability helps in establishing quantitative relationship between profit and level of investment or sales.

**4.7 Measurement Tool of Profitability:**

For making policy decision under different situations, measurement of profitability is essential. According to Murthy V.S. “The most important measurement of profitability of a company is ratio. E.g. profitability of assets, variously referred to as earning power of the company, return on total investment or total resources committed to
Profitability ratios are calculated to measure the operating efficiency of the firm. According to Block and Hirt “The income statement is the major device for measuring the profitability of a firm over a period of time.” Measurement of profitability is as essential as the earning of itself for the business concern. Some managerial decision like rising of additional finance, further expansion, problems of bonus and dividend payments rest upon this measurement. It can be measured for a short term and as well as for a long term. The relation to sales is the good short-term indication of successful growth while profitability in relation to investment is the healthier for long growth of the business. Profitability provides overall performance of a company and useful tool for forecast measurement of a company’s performance. “The overall objective of a business is to earn a satisfactory return/profit on the funds invested in it, while maintaining a sound financial position profitability measures financial success and efficiency of management.  

The importance of profitability performance can be seen from the reality that besides the management and owners of the company, financial institutions, creditors, bankers also look at its profitability. Appraisal of performance as regards to profitability can be drawn from interpreting various ratios. However there are few factors affected to the firm’s profitability. Each factor in turn will affect the profitability ratio. Diagram
No.-4.1, describes factors that affect different profit ratio and shows which ratio relates to explain other ratios.

**Diagram No.-4.1**

**Factors Affecting to Profitability Ratio**

Above figure stated that every factor affected earning power, directly or indirectly. The reason is one ratio explains to another. In present study profitability ratios can be measured through two group i.e.

1. Profitability ratios in relation to capital employed, the examples of sales based profitability ratio are net profit ratio, operation ratio and gross profit ratio and in relation to capital employed and return on owners equity of the company will be discussed below:
(I) Profitability ratios in relation to sales

(1) Gross Profit Ratio:

“The excess of the net revenue from sales over the cost of Merchandise sold is called gross profit, gross profit on sales or gross margin” ¹⁴ this ratio calculated by dividing gross profit by net sales and is usually expressed as a percentage. The formula of gross profit ratio is given below:

\[
\text{Gross Profit Ratio} = \frac{\text{Sales} - \text{Cost Of Goods Sold}}{\text{Sales}} \times 100
\]

The gross profit ratio highlights the efficiency with which management produces each unit of products as well as it indicates the average spread between the cost of goods sold and the sales revenue. Any fluctuation in the gross profit ratio is the result of a change in cost of goods sold or sales or both. A high gross profit ratio is a mark of effectiveness of management. The gross profit ratio may increase due to any of the below factors.

1. Lower cost of goods sold where sales prices remaining constant.
2. Higher sales prices where cost of goods sold remaining constant.
3. An increase in the proportionate volume of higher margin items
4. A combination of variations in sales prices and costs. While in the case of low profit ratio it may be reflected higher cost of goods sold due to firm’s inability to purchase at favorable terms, over investment in plant
and machinery etc. secondly this ratio will also be low due to a decrease in price in the market. Table No.5.1 Shows the gross profit ratio of some selected companies of textile industry in India with the average value.

The gross profit ratio of selected companies of textile industry in India is given in the Table No.4.1. The table shows the gross profit ratio of the selected companies of textiles industry.

### Table No.: 4.1

**Gross Profit Ratio of selected textiles companies in India**

**(2002-03to 2007-08)**  (In percent)

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<thead>
<tr>
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<td>4.22</td>
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<td>-158.53</td>
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<td>5.43</td>
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<td>20.40</td>
<td>20.91</td>
<td>14.62</td>
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<td>38.09</td>
<td>8.94</td>
<td>20.91</td>
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<td>94.98</td>
<td>-207.39</td>
<td>-235.28</td>
<td>50.51</td>
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</table>

Sources: computed from annual reports of respective companies.
Table No.4.1 shows the gross profit ratio in relative terms as percent of net sales. As regards the, SS M L the gross profit ratio varies from 4.22 percent to 6.30 percent. It shows the overall fluctuation in the ratio within the study period. The gross profit ratio of SS M L was highest in the year 2005-05 the value of the ratio in this year was 6.30. The lowest value of the ratio was in the year 2007-08. From the year 2002-03 the trend of the ratio is declining. In the year 2004-05 the value of the above said ratio was 5.17. The average value of the gross profit ratio of SS M L is 5.13 percent. The standard deviation is 0.77 percent and co-efficient of variation 15.01 percent which showed high fluctuation in gross profit ratio during the study period. If so the ratio of the company is fluctuating during the research study.

The given Table No.4.1 shows the gross profit ratio of the DGL from 2002-03 to 2007-08. The trend of the ratio is upward and fluctuated during the study period. The gross profit ratio of the DGL was 4.53 percent in the year 2007-08 which is highest in the year 2006-07. The average value of the ratio is -4.91 with standard deviation of 7.78 and co-efficient of variation of 208.98 percent. In the year 2005-06, and 2006-07 the value of the ratio was more than the average value of the ratio which is good indication for the better development of the company. The company has not maintained its good gross profit ratio during the study period.
Table No.4.1 expressed the gross profit ratio or the O S & W ML from 2002-03 to 2007-08. The gross profit ratio of the above said company is very poor and sometimes it shows the near to one percent and negative only which is the sign of poor management of the company. The highest ratio of the company was in the year 2007-08 and the value was 28.07. The lowest value of the ratio is minus 2.88 in the year 2003-04. So this year shows the very critical for the company.
The trend of the ratio is upward from the year 2005-06 but not satisfactory. The average value of gross profit ratio of above said company during the study period is 5.64 percent which are once again poor. The standard deviation has been 11.78 percent and coefficient of variation has been 208.98 percent which has shown high fluctuation in gross profit ratio the O S & W ML.

The above Table No.4.1 shows the gross profit ratio of SDML from the year 2002-03 to 2007-08. The trend of the above ratio is up-ward. The gross profit ratio of the company is ranged between 8.94 percent in 2002-03 and 20.91 percent in 2007-08 with an average of 14.21. The standard deviation is 5.41 and coefficient of variation is 38.09 which shows high fluctuation in gross profit ratio of SDML. The gross profit ratio of the company is up to the mark. The company could generate sufficient sales to earn gross profit and by keeping a very low cost of goods sold.

The Table No.4.1 indicates that gross profit ratio of WIL. The trend of the gross profit ratio is fluctuating with an average of 16.34 percent. The gross ratio is 14.75 percent in 2002-03 which then inclined to 16.64 percent in 2003-04 and rose to 16.89 percent in 2004-05. The ratio is 17.31 percent in 2005-60 and again it went up to 18.22 percent and in 2006-07 in the last to years of the study period the ratio has been 14.21 percent. The standard deviation is 1.54 percent and coefficient of
variation is 9.46. The performance of the company is poor because company could minimize the cost of goods sales.

Table No.4.1 expressed the gross profit ratio or the S K N L from 2002-03 to 2007-08. The gross profit ratio of the above said company is very poor and sometimes it shows the near to one percent and negative only which is the sign of poor management of the company. The highest ratio of the company was in the year 2007-08 and the value was 18.65. The lowest value of the ratio is minus 57.42 in the year 2004-05. So this year shows the very critical for the company. The trend of the ratio is upward from the year 2005-06 but not satisfactory. The average value of gross profit ratio of above said company during the study period is minus 2.16 percent which are once again poor. The standard deviation has been 28.82 percent and co-efficient of variation has been 1337.24 percent which has shown high fluctuation in gross profit ratio the S K N L.

The Table No.4.1 indicates that gross profit ratio of MFTL. The trend of the gross profit ratio is fluctuating with an average of minus 2.75 percent. The gross ratio is 8.91 percent in 2002-03 which then declined to minus 26.36 percent in 2003-04 and rose to minus 7.11 percent in 2004-05. The ratio is 9.59 percent in 2005-06 and again it went down to minus 15.75 percent and in 2006-07 in the last to years of the study period the ratio has been 14.25 percent. The standard deviation is 16.26 percent and co-efficient of variation is minus 592.51. The performance of the
company is poor because company could minimize the cost of goods sales.

On the basis of above analysis it can be said that the gross profit ratio of WIL was the highest followed by SDML, O S & W ML, SS M L, S K N L and MFTL. The MFTL DGL MFTL and S K N L Company needs to increase sales turnover and try to control cost of goods sold. The gross profit ratio of DGL was not up to the mark.

**Gross Profit Ratio (ANOVA Test)**

- **Null Hypothesis:** There is no any significant difference in Gross Profit Ratio of textiles units under study.

- **Alternative hypothesis:** There is significant difference in Gross Profit Ratio of textiles units under study.

- **Level of Significance:** 5 percent

- **Critical value:** 2.48

- **Degree of freedom:** 41
Since F critical > F cal (at 5% significance level), the alternative hypothesis is accepted and null hypothesis is rejected and hence it is concluded that the Gross Profit ratio does differ significantly.

2 Operating Profit Ratio

This ratio indicates the relationship between operating profit and net sales in the form of percentage. Operating profit arrived at by adjusting all non-operating expenses and incomes in net profit in the other words it can be said profit before depreciation and taxes. A consistently high ratio tells us the effective and efficient operation of the business. This ratio helps find out the profit arising out of pure production process i.e. the main business of production and sales. Thereby reflecting the effect of other incomes and expenses included in net profit.
A Study of Productivity and Financial Efficiency of Textile Industry of India

Operation Profit

Operating Profit Ratio = \frac{\text{Operation Profit}}{\text{Net Sales}} \times 100

Operation profit = \text{Sales} - (\text{Cost of goods sold} + \text{operational expenditure})

Table No.: 4.3

Operating profit Ratio of Selected textiles companies in India

(2002-03 to 2007-08). (In percent)

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<tr>
<td>SSML</td>
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<td>38.50</td>
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Sources: Annual Reports and Accounts of respective companies.

The above Table No. 4.3 shows the operating profit ratio of selected companies of textiles companies in India. The above table shows the operating profit ratio of SS M L from the year 2002-03 to 2007-08. The trend of the operating profit ratio of the above said company is fluctuating during the study. The highest value of the operating profit ratio of above company was 9.39 in the year 2005-06 and the lowest value of the ratio was 6.98 in the year 2007-08. The average value of the ratio is 8.18
percent with a fluctuating trend. The standard deviation was 0.86 and coefficient of variation was 10.49 percent which showed slightly fluctuation in the gross profit ratio. The ratio of the company is satisfactory.

The above Table No.4.3 shows the operating profit ratio of DGL from the year 2002-03 to 2007-08. The trend of the operating profit ratio of the above said company is slow fluctuating and negative in some years during the study. The highest value of the operating profit ratio of above company was 11.23 percent in the year 2002-03 and the lowest value of the ratio was minus 5.78 percent in the year 2006-07. The standard deviation was 6.39 percent with the average value of the ratio is 4.31 percent. The ratio of the company is not satisfactory.

The above Table No.4.3 shows the operating profit ratio of O S & W ML from the year 2002-03 to 2007-08. The trend of the operating profit ratio of the above said company is increasing with an average of 11.80 percent during the study. Operating profit ratio of O S & W ML has been ranged between 4.30 percent in 2003-04 and 32.07 percent in 2007-08. The standard deviation of the ratio was 10.62 percent and Co-efficient of variation was 90.05 percent.

The above Table No.4.3 showed the operating profit ratio of SDML with highly fluctuated trend. The ratio ranged between 25.61 percent in 2006-07 and 14.24 percent in 2003-04 with an average of 19.06 percent. The operating profit ratio in the 2005-06 and 2006-07 and
2007-08 was so good. However, overall operating profit ratio was satisfactory due to low cost of goods sold. The standard deviation was 5.35 percent and co-efficient of variation was 28.06 percent. The company should still try to control production expenses to earning better.

The above Table No.4.3 shows the operating profit ratio of WII from the year 2002-03 to 2007-08. The trend of the operating profit ratio of the above said company is fluctuating during the study. The highest value of the operating profit ratio of above company was 24.28 in the year 2006-07 and the lowest value of the ratio was 19.40 in the year 2002-03. The average value of the ratio is 21.87. The standard deviation was 2.05 percent and 9.39 percent. The ratio of the company is satisfactory.
A Study of Productivity and Financial Efficiency of Textile Industry of India

CgartNo.4.2 operating profit ratio

<table>
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<th>Year</th>
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<td>2007-08</td>
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- SS
- ML
- DGL
- O S & W ML
- SDML
- WIL
- S & DML
- MFL
- AVE.
The above Table No.4.3 shows the operating profit ratio of S K N L from the year 2002-03 to 2007-08. The trend of the operating profit ratio of the above said company is slow fluctuating and negative in some years during the study. The highest value of the operating profit ratio of above company was 21.47 percent in the year 2007-08 and the lowest value of the ratio was minus -50.89 percent in the year 2004-05. The standard deviation was 27.84 percent with the average value of the ratio is 4.24 percent. The ratio of the company is satisfactory except in the year of 2004-05.

The above Table No.4.3 shows the operating profit ratio of MFTL from the year 2002-03 to 2007-08. The trend of the operating profit ratio of the above said company is fluctuating during the study. The highest value of the operating profit ratio of above company was 21.65 in the year 2005-06 and the lowest value of the ratio was minus 14.32 in the year 2003-04. The average value of the ratio is 5.25. The standard deviation was 15.17 percent and 289.20 percent. The ratio of the company is not satisfactory.

On the basis of above analysis a researcher can conclude that the operating was very good in WIL. Followed by SDML, SS M L, O S & W ML DGL and S K N L. Companies like DGL and S K N L have below average ratio than the group average. These companies need to curb the operating cost.
Operating Profit Ratio (ANOVA Test)

Null Hypothesis:

There is no any significant difference in Operating Profit Ratio textiles units under study.

Alternative hypothesis:

There is significant difference in Operating Profit Ratio of textiles units under study.

Level of Significance: 5 percent

- Critical value: 2.48
- Degree of freedom: 41

Table no. 4.4

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From the above Table no. 4.4, it is clear that difference in between groups and within groups was not significant because the calculated value of ‘F’ (0.144) was lower than the table value of ‘F’ (2.48). Analysis
indicates that there were no similarities in operating profit ratio of textiles units under study.

3. **Net Profit Ratio**

Net Profit Ratio is obtained when operating expenses, interest and taxes are deducted from the gross profit. It indicates that the proportions of sales are left to the proprietors after all costs; charges and expenses have been deducted.

Net profit Ratio is differing from the operating profit ratio to sales ratio in as much as it computed after adding non operating surplus/deficit. (Difference of non operating income and none operating expenses) The net profit ratio is measured by dividing profit after tax by net sales.

\[
\text{Net Profit Ratio} = \frac{\text{Profit after tax}}{\text{Net Sales}} \times 100
\]

Net Profit Margin Ratio establishing relationship between net profit and sales and it indicates management efficiency in administrating, manufacturing and selling the products. This ratio is the overall measure of the firm’s ability to turn each rupees sale into net profit. While the net profit is inadequate, the firm will fail to achieve satisfactory return on owner’s equity, due to various reasons. Such as (a) falling price (b) Rising costs and declining sales.\(^{10}\) Thus, this ratio is very useful to the proprietors and widely used as a measure of overall profitability.
A high net profit ratio would ensure adequate return to the owners as well as enable a firm to withstand adverse economic conditions when the selling price declining, the cost of production is rising and demand for the products is falling.  

**Table No:-4.5**

**Net Profit Ratio of Selected Textiles Companies in India**

*(2002-03 to 2007-08) (In Percent)*

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SS M L</td>
<td>2.37</td>
<td>2.27</td>
<td>2.45</td>
<td>3.52</td>
<td>3.76</td>
<td>1.56</td>
<td>2.66</td>
<td>0.83</td>
<td>31.24</td>
<td>1.56</td>
<td>3.76</td>
</tr>
<tr>
<td>DGL</td>
<td>-18.56</td>
<td>-41.18</td>
<td>-12.66</td>
<td>0.54</td>
<td>-19.62</td>
<td>-6.53</td>
<td>-16.34</td>
<td>14.33</td>
<td>-87.75</td>
<td>-41.18</td>
<td>0.54</td>
</tr>
<tr>
<td>ML</td>
<td>4.31</td>
<td>4.72</td>
<td>6.65</td>
<td>12.16</td>
<td>12.24</td>
<td>8.38</td>
<td>8.08</td>
<td>3.51</td>
<td>43.45</td>
<td>4.31</td>
<td>12.24</td>
</tr>
<tr>
<td>SDML</td>
<td>6.16</td>
<td>7.98</td>
<td>7.84</td>
<td>5.89</td>
<td>4.86</td>
<td>1.96</td>
<td>5.78</td>
<td>2.22</td>
<td>38.43</td>
<td>1.96</td>
<td>7.98</td>
</tr>
<tr>
<td>WIL.</td>
<td>-21.63</td>
<td>-3.07</td>
<td>-58.00</td>
<td>10.49</td>
<td>9.96</td>
<td>11.03</td>
<td>-8.54</td>
<td>27.33</td>
<td>-320.16</td>
<td>-58.00</td>
<td>11.03</td>
</tr>
<tr>
<td>S K N L</td>
<td>2.03</td>
<td>-41.67</td>
<td>-21.70</td>
<td>-6.27</td>
<td>-39.05</td>
<td>7.10</td>
<td>-16.59</td>
<td>20.85</td>
<td>-125.66</td>
<td>-41.67</td>
<td>7.10</td>
</tr>
<tr>
<td>MFTL.</td>
<td>11.95</td>
<td>21.19</td>
<td>23.00</td>
<td>6.30</td>
<td>18.56</td>
<td>8.93</td>
<td>10.15</td>
<td>10.11</td>
<td>200.81</td>
<td>25.58</td>
<td>6.90</td>
</tr>
<tr>
<td>S.D</td>
<td>-211.80</td>
<td>-177.94</td>
<td>191.77</td>
<td>160.91</td>
<td>398.70</td>
<td>137.47</td>
<td>256.13</td>
<td>85.85</td>
<td>-156.84</td>
<td>121.66</td>
<td>74.79</td>
</tr>
</tbody>
</table>

Sources: Annual Reports and Accounts from 2002-03 to 2007-08.

The above Table No.4.5 shows the Net Profit Ratio of the SS M L from the year 2002-03 to 2007-08. During the 6 years study period researcher found many things. The trend of the ratio of above said
company was fluctuating in downward direction during the study period. The highest value of the ratio was 3.76 percent in the year 2006-07 and the lowest value of the ratio was 1.56 in the year 2007-08. The average value of the Net Profit ratio of above said company was 2.66 during the study period.

The net profit ratio of DGL was depicted in the Table No.4.5. The net profit ratio was showing negative trend with an average of minus16.34 percent. The net profit ratio was minus 18.56 percent in 2002-03 which went down to minus 41.18 percent 2003-04. The ratio was minus 12.66 percent in 2004-05 which again slightly rose to 0.54 percent in 2005-06. The ratio was minus 19.62 percent in 2006-07 and minus 6.53 percent in 2007-08. The average ratio has been of minus 16.34 percent with a range of minus 41.18 percent to 0.54 percent the average ratio was below the industry average which was not considered to be good ratio. Company should try to minimize production cost. The standard deviation and coefficient was 14.33 percent and 87.75 Percent which showed high changes in net profit ratio.

The above Table No.4.5 shows the Net Profit Ratio of the O S & W ML from the year 2002-03 to 2007-08. During the 6 years study period researcher founds many things. The trend of the ratio of above said company was fluctuating during the study period. Up to the year 2002006-07 the trend was fluctuating and negative from the year of 2007-
08 year the trend was up ward. The highest value of the ratio was 21.96 in the year 2007-08 and the lowest value of the ratio was minus 14.17 in the year 2002-03. The standard deviation and co-efficient were 13.31 percent and 475.78 percent which showed high changes. The average value of the Net Profit Ratio of above said company was minus 2.80 during the study period. The company shows the good performance during the study period.

The above Table No.4.5 shows the Net Profit Ratio of the SDML from the year 2002-03 to 2007-08. The ratio showed fluctuating trend during the study period. The ratio was 4.31 percent which went up to 4.72 percent in 2003-04. The ratio was 6.65 percent in 2004-05 and 12.16 percent in 2005-06. The ratio was 12.24 percent in 2006-07 and than it went down to 8.38 percent in 2007-08. The ratio was 12.24 percent in 2005-06 which was the ever highest ratio of the company. During the 6 years study period researcher found that standard deviation was 3.51 percent along with co-efficient of variation of 43.45 percent. The net profit ratio was satisfactory in the company due to minimum administrative expenses.

The Table No.4.5 showed the net profit ratio of WIL with the fluctuated trend during the research period. The highest net profit ratio found 7.98 percent in 2004-05 and the lowest net profit ratio found of 1.96 percent with average of 5.78 percent. The standard deviation and co-
efficient were 2.22 percent and 38.43 percent. The company shows the average performance during the study period.

The net profit ratio of S K N L was depicted in the Table No.4.5. The net profit ratio was showing negative trend with an average of minus-8.54 percent. The net profit ratio was minus 21.63 percent in 2002-03 which went up to minus -3.07 percent 2003-04. The ratio was minus -58.00 percent in 2004-05 which again slightly rose to 10.49 percent in 2005-06. The ratio was 9.96 percent in 2006-07 and minus 6.53 percent in 2007-08. The average ratio has been of minus -8.54 percent with a range of minus -58.00 percent to 11.03 percent the average ratio was below the industry average which was not considered to be good ratio. Company should try to minimize production cost. The standard deviation and coefficient was 27.33 percent and -320.16 Percent which showed high changes in net profit ratio.

The above Table No.4.5 shows the Net Profit Ratio of the MFTL from the years 2002-03 to 2007-08. During the 6 years study period researcher found many things. The trend of the ratio of above said company was fluctuating and negative trend during the study period. The highest value of the ratio was 7.10 percent in the year 2007-08 and the lowest value of the ratio was -41.67 in the year 2003-04. The average value of the Net Profit ratio of above said company was -16.59 during the study period.
Above analysis explains that the SDML has the highest net profit ratio followed by WIL and SS ML. Other units like DCL, OS & WML SKNL AND MFTL have witnessed very low net profit ratio therefore company needs to have control over the expenses
**Net Profit Ratio (ANOVA Test)**

**Null Hypothesis:** There is no any significant difference in Net Profit Ratio of textiles units under study.

**Alternative hypothesis:** There is significant difference in Net Profit Ratio of textiles units under study.

Level of Significance: 5 percent

Critical value: 2.48

Degree of freedom: 41

**Table No.4.6**

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
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</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>2116.353</td>
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<td>423.27</td>
<td>1.6</td>
<td>0.18</td>
<td>2.48</td>
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<tr>
<td>Within Groups</td>
<td>9507.469</td>
<td>36</td>
<td>264.1</td>
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<td></td>
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<tr>
<td>Total</td>
<td>11623.82</td>
<td>41</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table No.4.6 Indicates there is no significant difference in Net Profit ratio of textiles units under study because the calculated value of ‘F’ is lower than table value so, null hypothesis is accepted and alternative hypothesis rejected. It can be concluded that there is no high deviation in the Net Profit ratio of textiles units under study.
(II) Profitability in relation to Capital Employed:

(1) Earning Per Share (EPS)

Earning per share is widely used method of measuring profitability of the common shareholders investment it measures the profit available to the equity shareholders on per share basis. The earning per share is calculated by dividing the profit after taxes by total numbers of common shares outstanding.

\[
\text{Earning Per Share} = \frac{\text{Profit after Tax}}{\text{Number of Equity Share}} \times 100
\]

The earning per share calculations made over years shows whether or not the firms earning power on per share basis have changed over that period. “The earning per share simply shows the profitability of the firm on a per share basis. It does not reflect how much is paid as dividend and how much is retained in business but as a profitability index. It is a valuable and widely used ratio. Thus, the profitability of common shareholders investment can be measured easily by per share. The given table shows the Earning per share of selected companies of the textiles companies

An investor can take a decision on the basis of the trend of Earning per share for number years. Earning per share has been calculated here in Rs. Per share basis as the denomination of the face value of shares varies
in different companies. Following table shows the analysis of the Earning per Share.  

**Table No.:4.7**

**Earning Per Share of selected companies in India from 2002-03 to 2007-08 (In rupees)**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>SS M L</td>
<td>11.77</td>
<td>13.51</td>
<td>25.90</td>
<td>24.97</td>
<td>21.41</td>
<td>9.93</td>
<td>17.9</td>
<td>7.0</td>
<td>10.34</td>
<td>25.9</td>
<td>9.9</td>
</tr>
<tr>
<td>DGL</td>
<td>-17.50</td>
<td>-18.99</td>
<td>-6.53</td>
<td>0.14</td>
<td>-3.30</td>
<td>-1.18</td>
<td>-7.9</td>
<td>8.3</td>
<td>13.8</td>
<td>-105.7</td>
<td>-19.0</td>
</tr>
<tr>
<td>O S &amp; W ML</td>
<td>0.00</td>
<td>0.00</td>
<td>0.10</td>
<td>0.00</td>
<td>0.17</td>
<td>0.0</td>
<td>0.1</td>
<td>49.1</td>
<td>0.2</td>
<td>162.5 \</td>
<td>0.0 \</td>
</tr>
<tr>
<td>SDML</td>
<td>34.92</td>
<td>54.24</td>
<td>67.02</td>
<td>163.06</td>
<td>181.62</td>
<td>131.14</td>
<td>105.3</td>
<td>61.4</td>
<td>34.9</td>
<td>58.3</td>
<td>181.6</td>
</tr>
<tr>
<td>WIL</td>
<td>5.9</td>
<td>6.52</td>
<td>6.83</td>
<td>5.68</td>
<td>7.13</td>
<td>3.59</td>
<td>5.9</td>
<td>1.3</td>
<td>7.1</td>
<td>21.5</td>
<td>3.6</td>
</tr>
<tr>
<td>SKNL</td>
<td>-8.75</td>
<td>-1.24</td>
<td>-13.08</td>
<td>6.45</td>
<td>6.41</td>
<td>8.48</td>
<td>-0.3</td>
<td>9.0</td>
<td>8.5</td>
<td>-314.8</td>
<td>-13.1</td>
</tr>
<tr>
<td>MFTL</td>
<td>-145.66</td>
<td>-151.70</td>
<td>-87.31</td>
<td>-20.60</td>
<td>-130.44</td>
<td>58.61</td>
<td>-79.5</td>
<td>83.4</td>
<td>58.6</td>
<td>0.0</td>
<td>-151.7</td>
</tr>
<tr>
<td>AVE.</td>
<td>-17.1</td>
<td>-14</td>
<td>-1</td>
<td>25.7</td>
<td>11.8</td>
<td>30.1</td>
<td>5.92</td>
<td>10.34</td>
<td>30.1</td>
<td>174.8</td>
<td>-17.1</td>
</tr>
<tr>
<td>S.D</td>
<td>59.1</td>
<td>64.8</td>
<td>46.6</td>
<td>62.0</td>
<td>90.9</td>
<td>49.1</td>
<td>62.1</td>
<td>33.6</td>
<td>65.6</td>
<td>1191.0</td>
<td>60.9</td>
</tr>
<tr>
<td>C.V.</td>
<td>-346.6</td>
<td>-464.3</td>
<td>-4615.5</td>
<td>241.7</td>
<td>768.2</td>
<td>163.1</td>
<td>-706.9</td>
<td>136.0</td>
<td>-315.1</td>
<td>162.9</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Annual Reports and Accounts from 2002-03 to 2007-08.

The above Table No.:4.7 showed the Earning per Share of the selected companies of the textiles companies in India from the year 2002-03 to 2007-08. Tables No.:4.7 showed EPS of SS M L. The Earning per share of the SS M L showed highly fluctuated trend during the study period. The EPS was Rs. 11.77. In 2002-03 which then inclined to Rs. 13.51 in 2003-04. The EPS then went up to 25.90 due to increase in net profit. The EPS was Rs. 24.97 in 2005-06 and Rs 21.41 In 2006-07 and the EPS was 9.93 in the last year of study period. The EPS has gone
down to Rs. 9.93 due to decrease in net profit. The average EPS was Rs 73.29 which was good enough compare to industry average of Rs 17.90. The standard deviation was 7.00 percent and Co-efficient was 39.20 percent.

The above Table No.4.7 showed the Earning per share of the DGL from the year 2002-03 to 2007-08. The EPS trend of the above said company was fluctuating during the study period. From the year 2002-03 the trend of the EPS is downward. The highest value of EPS was 0.2 in the year 2007-08 and the lowest value of the EPS was 0.00 in the year 2002-03. The average value of the EPS was -7.9. The overall trend was not considered satisfactory. The standard deviation was 8.3 percent and Co-efficient was -105.7 percent.
The above Table No.:4.7 showed the Earning per share of the O S & W ML from the year 2002-03 to 2007-08. The EPS trend of the above said company was fluctuating during the study period. From the year 2003-04 the trend of the EPS is upward. The highest value of EPS was 0.2 in the year 2007-08 and the lowest value of the EPS was 0.0 in the year 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07. The average value of the EPS was 0.0 with the standard deviation was 0.1 percent and Coefficient was 162.5 percent. The overall trend was considered satisfactory.

The above Table No.:4.7 showed the Earning per share of the SDML from the year 2002-03 to 2007-08. The EPS trend of the above said company was fluctuating during the study period with an average of Rs. 105.3. The highest value of EPS was 181.6 in the year 2006-07 and the lowest value of the EPS was 34.9 in 2002-03. The average value of the EPS was 105.3. The standard deviation was 61.4 and coefficient of variance was 58.3 percent.

The above Table No.:4.7 showed the Earning per share of the WIL from the year 2002-03 to 2007-08. The EPS trend of the above said company was fluctuating during the study period. From the year 2003-04 the trend of the EPS is downward. The highest value of EPS was 7.1 in the year 2007-08 and the lowest value of the EPS was 3.6 in the 2007-08. The average value of the EPS was 5.9 with the standard deviation was 1.3.
percent and Co-efficient was 21.5 percent. The overall trend was considered satisfactory.

The above Table No.:4.7 showed the Earning per share of the S K N L from the year 2002-03 to 2007-08. The EPS trend of the above said company was fluctuating and negative during the study period with an average of Rs. -0.3. The highest value of EPS was 8.5 in the year 2007-08 and the lowest value of the EPS was -13.1 in 2004-05. The average value of the EPS was -0.3. The standard deviation was 9.0 and coefficient of variance was 3114.8 percent.

The above Table No.:4.7 showed the Earning per share of the MFTL from the year 2002-03 to 2007-08. The EPS trend of the above said company was fluctuating during the study period. From the year 2002-05 the trend of the EPS is downward. The highest value of EPS was 58.6 in the year 2007-08 and the lowest value of the EPS was -151.7 in the 2003-04. The average value of the EPS was -79.5 with the standard deviation were 83.4 percent and Co-efficient was 0.0 percent. The overall trend was not considered satisfactory.

On the basis of EPS analysis of industry, a researcher has concluded that the performance of EPS was the best of SDML (105.3) followed by SS M L and WIL. But companies like O S & W ML, and S K N L need to increase ESP. These companies could not have better control over administrative expenses.
Earning per share (ANOVA Test)

Null Hypothesis:
There is no any significant difference in earning per share of textiles units under study.

Alternative hypothesis:
There is significant difference in earning per share of textiles units under study.

Level of Significance: 5 percent

Critical value: 248

Degree of freedom: 41

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>13864.76</td>
<td>5</td>
<td>2773</td>
<td>0.68</td>
<td>0.64</td>
<td>2.48</td>
</tr>
<tr>
<td>Within Groups</td>
<td>146326.4</td>
<td>36</td>
<td>4064.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>160191.1</td>
<td>41</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Table No.4.8 Indicates there insignificant difference in earning per share of textile units under study because the calculated value of ‘F’ is
lower than table value so, null hypothesis is accepted and alternative hypothesis rejected. It can be concluded that there is no high deviation in the Earning per share of textiles units under study.

2. **Return on Capital Employed.**

In day to day use the term “capital employed’ is used to indicate the total investment in the firm whether owners or borrowed. But the capital employed in a firm may be defined in a number of ways and the two most widely accepted definitions are Gross Capital Employed and Net Capital Employed. Gross Capital Employed usually comprises the total assets used in the business while net capital employed consists of the total assets of the business less its current liabilities.

(II) **Return on Gross Capital Employed**

On the ground that the current liabilities are also a form of capital and all funds must be effectively employed. The Gross Capital Employed concept may be favoured by the analyses. Thus;

**Gross Capital Employed = Fixed Assets+ Current Assets**

It may be noted that the total of fixed assets and current assets does not necessarily represents total assets or total liabilities of a company.

(III) **Net Capital Employed**

On the ground that further either only short term creditors or only short term debtors should be included in the capital employed. The net capital employed concept may be favored.
A Study of Productivity and Financial Efficiency of Textile Industry of India

Net Capital Employed= Gross capital employed-Current liabilities

OR

Net Capital Employed= Fixed assets- Net working capital

(i) Return on gross capital employed:-

As defined earlier gross capital employed is that total of fixed assets and current assets. Alternatively, it is the quantum of liabilities plus shareholders equity. The numerator, i.e. net profit before interest and taxes has been taken for computing this ratio.

Table No:-4.9

The return on gross capital employed ratio of selected textiles companies in India (2002-03 to 2007-08) (in percent)

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SS M L</td>
<td>9.89</td>
<td>8.78</td>
<td>9.79</td>
<td>15.84</td>
<td>16.18</td>
<td>11.88</td>
<td>3.27</td>
<td>27.50</td>
<td>8.78</td>
<td>16.18</td>
<td></td>
</tr>
<tr>
<td>DGL</td>
<td>-0.65</td>
<td>-10.68</td>
<td>-6.92</td>
<td>0.66</td>
<td>-9.47</td>
<td>0.29</td>
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<td>-15.65</td>
<td>-10.68</td>
<td>0.66</td>
</tr>
<tr>
<td>O S &amp; W ML</td>
<td>-2.36</td>
<td>-3.03</td>
<td>-0.64</td>
<td>17.17</td>
<td>5.92</td>
<td>109.50</td>
<td>21.09</td>
<td>43.97</td>
<td>208.44</td>
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<td>109.50</td>
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<td>17.63</td>
<td>13.89</td>
<td>12.31</td>
<td>13.85</td>
<td>11.01</td>
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<td>2.24</td>
<td>16.46</td>
<td>11.01</td>
<td>17.63</td>
</tr>
<tr>
<td>S K N L</td>
<td>-2.23</td>
<td>-1.71</td>
<td>-22.50</td>
<td>18.28</td>
<td>17.62</td>
<td>20.98</td>
<td>5.07</td>
<td>17.00</td>
<td>335.03</td>
<td>-22.50</td>
<td>20.98</td>
</tr>
<tr>
<td>MFTL</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>53.27</td>
<td>92.11</td>
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<tr>
<td>AVE.</td>
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<td>3.22</td>
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<td>12.18</td>
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<td>31.26</td>
<td>22.01</td>
<td>10.34</td>
<td>47.0</td>
<td>0.87</td>
<td>75.39</td>
</tr>
<tr>
<td>S.D</td>
<td>187.08</td>
<td>9.79</td>
<td>12.87</td>
<td>8.51</td>
<td>10.81</td>
<td>38.37</td>
<td>31.96</td>
<td>72.58</td>
<td>155.15</td>
<td>12.50</td>
<td>180.61</td>
</tr>
<tr>
<td>C.V.</td>
<td>248.15</td>
<td>303.90</td>
<td>1472.36</td>
<td>69.85</td>
<td>118.11</td>
<td>122.73</td>
<td>145.18</td>
<td>183.55</td>
<td>150.84</td>
<td>-1524.11</td>
<td>184.48</td>
</tr>
</tbody>
</table>

Sources: Annual Reports and Accounts from 2002-03 to 2007-08.

The Above Table No.4.9 showed return on gross capital employed of SS M L the trend of this ratio was decreasing during the
research period. The standard deviation was 3.27 percent with an average of 11.88 percent. The return on gross capital employed was 9.89 percent in 2002-03 and 9.79 percent in 2004-05. The ratio rose to 15.84 percent in 2005-06 and reached at the level of 10.78 percent in 2007-08. The ratio ranged between 8.78 percent in 2003-04 and 16.18 percent in 2006-07. The return on capital employed is good in this unit.

The return on gross capital employed of DGL was shown in the above Table No.4.9. The ratio ranged between minus 10.68 percent in 2003-04 and 0.66 percent in 2005-06. The average ratio was minus 4.46 percent with a standard deviation of 5.16 percent. The ratio was minus 0.65 in 2002-03 and minus 10.68 in 2003-04. Then it rose to -6.92 in 2004-05 and 0.66 in 2005-06. The ratio of company was not satisfactory. The company needed to increase to earning potentiality.

The above Table No.4.9 showed return on gross capital employed of O S & W ML. The ratio showed very fluctuating trend with an average of 21.09 percent during the study period. The ratio was -2.36 percent in 2002-03 and slipped to -3.03 percent in 2003-04. The ratio was -0.64 percent in 2004-05 and 17.17 percent in 2005-06. The ratio after it rose and reached to the highest level of 109.50 percent in 2007-08. The ratio was very good in the last two years of study period. The standard deviation was 43.97 percent and co-efficient of variation was 208.44 percent.
The above Table No.4.9 shows the gross capital employed ratio of SDML from 2002-03 to 2007-08. The trend of the above said ratio was mixed during the study period. The ratio showed fluctuating trend during the research period. The ratio was 10.68 percent in 2002-03 and 11.56 percent in 2003-04. The ratio was 12.50 percent in 2004-05 and 20.99 percent in 2005-06. The ratio was again went down to 19.94 percent. The highest value of the ratio was 20.99 percent in the year 2005-06 and the lowest value of the ratio was 10.68 percent the year 2002-03. The average value of the ratio was 14.78 with a standard deviation of 4.49 percent co-efficient of variation of 30.36. The overall position was good.

The above Table No.4.9 shows the gross capital employed ratio of WIL from 2002-03 to 2007-08. The trend of the above said ratio was mixed and fluctuating during the study period. The trend was upward up to the year 2003-04 than it declines up to the year 2004-05 further it increases till the 2006-07. The highest value of the ratio was 20.98 in the year 2007-08 and the lowest value of the ratio was -22.50 in the year 2004-05. The average value of the ratio was 13.62 which were higher than the industry average. The standard deviation was 17.00 percent and co-efficient of variation of 16.46 percent. The ratio was as good as it should be for these types of industry.

The above Table No.4.9 showed return on gross capital employed of S K N L. The ratio showed very fluctuating trend with an average of
5.07 percent during the study period. The ratio was --2.23 percent in 2002-03 and slipped to -1.71 percent in 2003-04. The ratio was -22.50 percent in 2004-05 and 18.28 percent in 2005-06. The after it rose and reached to the highest level of 20.98 percent in 2007-08. The ratio was very good in the last three years of study period. The standard deviation was 17.00 percent and co-efficient of variation was 335.03 percent.

The above Table No.4.9 shows the gross capital employed ratio of MFTL from 2002-03 to 2007-08. The trend of the above said ratio was mixed during the study period. The ratio showed fluctuating trend during the research period. The ratio was 499.38 percent in 2002-03 and 0.00 percent in 2003-04. The ratio was 0.00 percent in 2004-05 and 0.00 percent in 2005-06. The ratio was again went down to 0.00 percent. The highest value of the ratio was 53.27 percent in the year 2007-08 and the lowest value of the ratio was 0.00 percent the year 2002-03, 2003-04, 2004-05 and 2006-07. The average value of the ratio was 92.11 with a standard deviation of 200.66 percent co-efficient of variation of 217.85. The overall position was good.

On the basis of above analysis it van be said that the MFTL could earn highest return on gross capital employed followed by O S & W ML, SDML, WIL and S K N L. The performance of DGL and S K N L was below average than industry average.

**Return on Gross Capital Employed Ratio (ANOVA Test)**
Null Hypothesis:

There is no any significant difference in Return on Gross Capital Employed Ratio of textiles units under study.

Alternative hypothesis:

There is significant difference in Return on Gross Capital Employed Ratio of textiles units under study.

Level of Significance: 5 percent

Critical value: 2.48

Degree of freedom: 41
Table no.4.10

**Return on Gross Capital Employed Ratio (ANOVA Test)**

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>27976.83</td>
<td>5</td>
<td>5595.4</td>
<td>0.91</td>
<td>0.49</td>
<td>2.48</td>
</tr>
<tr>
<td>Within Groups</td>
<td>221525.8</td>
<td>36</td>
<td>6153.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>249502.6</td>
<td>41</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the above Table no.4.10, it is clear that difference in between groups and within groups was not significant because the calculated value of ‘F’ (0.234) was lower than the table value of ‘F’ (2.45). Analysis indicates that there were similarities in Return on Gross Capital Employed Ratio of textiles units under study.

**II) Return on Net Capital Employed**

Net Capital Employed is the total of fixed assets plus current assets minus current liabilities. Alternatively, it is the quantum of permanent capital e.g. Non current liabilities plus shareholder’s equity. The numerator, e.g. Net profit before interest and taxes but after depreciation has been taken for computing this ratio.
Return on Net Capital Employed = \( \frac{\text{Net Profit before interest and taxes}}{\text{Net Capital Employed}} \times 100 \)

This ratio is the best of overall profitability and efficiency of the business firm. A company with high rate of return on capital employed will be in a position to capitalise; e.g. it can take advantage of all favourable market opportunities.

Table no.4.11

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>SSML</td>
<td>4.79</td>
<td>4.42</td>
<td>4.65</td>
<td>8.84</td>
<td>10.69</td>
<td>3.98</td>
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<td>2.81</td>
<td>45.19</td>
<td>3.98</td>
<td>10.69</td>
</tr>
<tr>
<td>DGL</td>
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<td>-29.42</td>
<td>-12.73</td>
<td>0.07</td>
<td>-15.44</td>
<td>-7.53</td>
<td>-12.44</td>
<td>9.86</td>
<td>-79.29</td>
<td>-29.42</td>
<td>0.07</td>
</tr>
<tr>
<td>O S &amp; WML</td>
<td>-13.06</td>
<td>-13.03</td>
<td>-11.20</td>
<td>2.23</td>
<td>-8.58</td>
<td>65.68</td>
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<td>36.96</td>
<td>556.10</td>
<td>-13.06</td>
<td>85.68</td>
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<tr>
<td>SDML</td>
<td>5.15</td>
<td>6.06</td>
<td>7.32</td>
<td>12.51</td>
<td>11.67</td>
<td>7.46</td>
<td>8.36</td>
<td>3.02</td>
<td>36.14</td>
<td>5.15</td>
<td>12.51</td>
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<tr>
<td>WIL</td>
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<td>8.45</td>
<td>6.44</td>
<td>4.19</td>
<td>3.69</td>
<td>1.52</td>
<td>4.95</td>
<td>2.39</td>
<td>48.31</td>
<td>1.52</td>
<td>8.45</td>
</tr>
<tr>
<td>S K N L</td>
<td>-13.78</td>
<td>-1.90</td>
<td>-22.73</td>
<td>11.73</td>
<td>11.15</td>
<td>12.41</td>
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<td>15.00</td>
<td>-2883.91</td>
<td>-22.73</td>
<td>12.41</td>
</tr>
<tr>
<td>MFTL</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>26.54</td>
<td>23.40</td>
<td>45.57</td>
<td>194.74</td>
<td>0.00</td>
<td>113.85</td>
</tr>
<tr>
<td>AVE.</td>
<td>13.26</td>
<td>-3.63</td>
<td>-4.04</td>
<td>5.65</td>
<td>1.88</td>
<td>18.58</td>
<td>5.28</td>
<td>10.34</td>
<td>195.7</td>
<td>-4.04</td>
<td>18.58</td>
</tr>
<tr>
<td>S.D</td>
<td>45.21</td>
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<td>11.60</td>
<td>5.34</td>
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<td>31.39</td>
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<td>1158.76</td>
<td>13.98</td>
<td>45.31</td>
</tr>
<tr>
<td>C.V.</td>
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<td>-287.34</td>
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<td>563.57</td>
<td>168.97</td>
<td>202.82</td>
<td>107.65</td>
<td>-369.46</td>
<td>-179.33</td>
<td>130.17</td>
</tr>
</tbody>
</table>

Source: Annual Reports and Accounts from 2002-03 to 2007-08.
A Study of Productivity and Financial Efficiency of Textile Industry of India

Graph No. 4.6: Return on Net Capital Employed

The graph illustrates the return on net capital employed over the years 2002-03 to 2007-08. The data shows variations in the ratio over different years, indicating the financial efficiency of the textile industry in India during this period.
Table No. 4.11 showed return on net capital employed of SS M L. The ratio showed fluctuating and upward trend during the study period. The ratio was 4.79 percent in 2002-03 and 8.84 percent in 2005-06. The ratio gain rose to 10.69 percent in 2006-07 and it was reached at the bottom level of 3.98 percent in 2007-08 with an average of 6.23 percent. The standard deviation was 2.81 percent and co-efficient of variation was 45.19 percent.

Table No. 4.11 depicted the return on net capital employed of DGL. The ratio showed decreasing trend from 2002-03 to 2007-08. The ratio was -9.57 percent in 2002-03 and then it went down to -29.42 percent in 2003-04. The ratio again increased to -12.73 percent in 2004-05 which very low and 0.07 percent in 2005-06. The ratio then after marginally declined and reached at bottom level to minus -15.44 percent in 2006-07. The ratio ranged between minus 0.07 percent in -29.42 percent in 2003-04 with an average of -12.44 percent. The standard deviation was 9.86 percent and co-efficient of variation was -79.29 percent.

Table No. 4.11 showed return on net capital employed of O S & W ML with an average of 7.01 percent. The ratio was 13.06 percent in 2002-03 and then it declined to -13.03 percent in 2003-04. The ratio was -11.20 percent in 2004-05 and it went up to 2.23 percent in 2005-06. The ratio was showing increasing trend from 2006-07 to 2007-08. The ratio was not
showing progressive trend during the study period. The ratio was not very good and company’s earning capacity was not good.

Return on net capital employed of SDML was manifested in Table No. 4.11. The average ratio was 8.36 percent with fluctuating trend during the study period. The ratio was 5.15 percent in 2002-03 which rose to 6.06 percent in 2003-04 and then it went up to 7.32 percent in 2004-05. The ratio has been slightly fluctuated and went up to 12.51 percent and 11.67 percent in 2005-06 and 2007-08 respectively. The standard deviation was 3.02 percent and co-efficient of variation was 36.14 percent. The ratio ranged between 12.51 percent in 2005-06 and 5.15 percent in 2002-03.

Table No. 4.11 expressed the return on net capital employed of WIL. Was 5.43 percent in 2002-03 which was 8.45 percent in 2003-04. The ratio slipped to 6.44 percent in 2004-05 the ratio was decreased to 3.69 percent in 2006-07. The ratio was 1.52 percent in 2007-08 and then due to control over expenses. The ratio was very in the last year of study period. The return on net capital employed was very good in this company. The standard deviation was 2.39 percent and co-efficient of variation was 48.31 percent.

Table No. 4.11 showed return on net capital employed of S K N L. The ratio showed fluctuating and upward trend during the study period. The ratio was -13.78 percent in 2002-03 and 11.73 percent in 2005-06.
The ratio gain rose to 11.15 percent in 2006-07 and it was reached at the level of 12.41 percent in 2007-08 with an average of -0.52 percent. The standard deviation was 15.00 percent and co-efficient of variation was -2883.91 percent.

Return on net capital employed of MFTL was manifested in Table No. 4.11. The average ratio was 23.40 percent with fluctuating trend during the study period. The ratio was 113.85 percent in 2002-03 which rose to 0.00 percent in 2003-04 and then it went up to 0.00 percent in 2004-05. The ratio has been slightly fluctuated and went up to 0.00 percent and 0.00 percent in 2005-06 and 2007-08 respectively. The standard deviation was 45.57 percent and co-efficient of variation was 194.74 percent. The ratio ranged between 0.00 percent in 2003-04 and 113.85 percent in 2002-03.

On the basis of analysis the return on net capital was found highest of 8.36 percent in SDML and the lowest return on net capital employed was found of -12.44 percent in DGL. The Return on net capital employed was below industry average of WIL, DGL and S K N L

**Return on Net Capital Employed Ratio (ANOVA Test)**

**Null Hypothesis:**

There is no any significant difference in Return on Net Capital Employed Ratio of textiles units under study.
Alternative hypothesis:

There is significant difference in Return on Net Capital Employed Ratio of textiles units under study.

Level of Significance: 5 percent

Critical value: 2.48

Degree of freedom: 41

Table no.4.12

<table>
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<th>Source of Variation</th>
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<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>2928.962</td>
<td>5</td>
<td>585.79</td>
<td>1.01</td>
<td>0.43</td>
<td>2.48</td>
</tr>
<tr>
<td>Within Groups</td>
<td>20903.49</td>
<td>36</td>
<td>580.65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23832.46</td>
<td>41</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table No.4.12 showed the F calculated value > F critical (at 5% significance level), the null hypothesis is accepted and alternative hypothesis is rejected and hence it is concluded that the Return on Net Capital Employed ratio of textiles companies does not differ significantly.

(3) Return on Net Worth:-

Return on net worth is also known as return on shareholders equity. This ratio shows how the firm will have used the resources of owners. It
may true that this ratio is one of the most relationship in financial analysis. This return on owner’s equity is calculated by following formula:

\[
\text{Return on Net Worth} = \frac{\text{Net Profit after Taxes and Interest}}{\text{Net Worth}} \times 100
\]

Where, owner’s equity = share capital + reserve & surplus.

This ratio indicated the extent to which this objective has been fulfilled. This, ratio reflects great interest to present as well as prospective shareholders and also important for management, because management has responsibility of maximizing the owners wealth the market place.

This ratio would be compared with the ratios for other similar companies as well as the industry average. Thus, it shows the relative performance and strength of the company.
The Return on net worth ratio of textiles companies in India

(2002-03 to 2007-08) (in percent)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SS M L</td>
<td>8.4</td>
<td>7.5</td>
<td>8.2</td>
<td>14.5</td>
<td>16.0</td>
<td>6.9</td>
<td>10.3</td>
<td>3.9</td>
<td>38.2</td>
<td>6.9</td>
<td>16.0</td>
</tr>
<tr>
<td>DGL</td>
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<td>-935.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>-163.5</td>
<td>-378.4</td>
<td>-231.4</td>
<td>-935.1</td>
<td>0.0</td>
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</tr>
<tr>
<td>O S &amp; WML</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>930.2</td>
<td>155.0</td>
<td>379.7</td>
<td>244.9</td>
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<td>930.2</td>
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</tr>
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<td>10.9</td>
<td>4.6</td>
<td>42.4</td>
<td>6.1</td>
<td>17.2</td>
</tr>
<tr>
<td>WML</td>
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<td>12.9</td>
<td>9.1</td>
<td>9.6</td>
<td>4.8</td>
<td>9.9</td>
<td>3.2</td>
<td>32.0</td>
<td>4.8</td>
<td>13.7</td>
</tr>
<tr>
<td>S K N L</td>
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<td>-6.0</td>
<td>-105.9</td>
<td>45.3</td>
<td>26.7</td>
<td>23.9</td>
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<td>56.1</td>
<td>-591.3</td>
<td>-105.9</td>
<td>45.3</td>
</tr>
<tr>
<td>MFTL</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>AVE.</td>
<td>-9</td>
<td>-130.4</td>
<td>-10.8</td>
<td>12.3</td>
<td>9.7</td>
<td>139.4</td>
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<td>10.34</td>
<td>553.9</td>
<td>-130.4</td>
<td>139.4</td>
</tr>
<tr>
<td>S.D.</td>
<td>23.9</td>
<td>354.9</td>
<td>42.3</td>
<td>16.2</td>
<td>10.4</td>
<td>348.8</td>
<td>92.3</td>
<td>179.4</td>
<td>269.7</td>
<td>350.3</td>
<td>346.1</td>
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<tr>
<td>C.V.</td>
<td>-266.5</td>
<td>-272.1</td>
<td>-391.5</td>
<td>132.0</td>
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<td>152.1</td>
<td>-406.0</td>
<td>-238.6</td>
<td>237.0</td>
</tr>
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</table>

Sources: Annual Reports and Accounts from 2002-03 to 2007-08.

The above Table No. 4.13 showed the ratio of rerun on net worth of SS M L which also indicated fluctuated trend with an average of 10.3 percent. The highest ratio had been found of 16.0 percent in 2006-07 and the lowest ratio had also been found of 6.9 percent in 2007-08. The standard deviation was 3.9 percent with co-efficient of 38.2 percent. The ratio was quite satisfactory.

The ratio of return on net worth of DGL was seen in above Table No. 4.13. The ratio explained the negative trend with an average of -163.5. The ratio was -46.0 percent in 2002-03 and rose to -935.1 percent.
in 2003-04. The ratio slipped to 0.0 percent from 2003-04 to 2007-08. The ratio was highly fluctuated and went down to minus to -935.1 percent in 2003-04 and minus 0.00 percent in 2003-04, 2004-05, 2005-06 and 2006-07. The ratio was ranged between 0.00 percent and -935.10 percent during the study period. The ratio showed standard deviation of 378.4 percent and co-efficient of variation of -231.4. The company had shown bad performance in the last four years.

The above Table No. 4.13 showed Return on net worth of O S & W ML. The ratio showed fluctuated and progressive trend with an average of 155.00 percent. The return on net worth ratio ranged between 0.00 percent and 930.2. The standard deviation was 379.7 percent and co-efficient of variation was 244.9 percent. The average ratio was above average of industry.

The above Table No. 4.13 showed return on net worth of NAC with increased trend. The average ratio was 23.53 percent which was the best. The ratio was 19.37 percent in 2000-01 but it was lightly declined to 14.79 percent in 2001-02. The ratio again indicated growth and reached to 20.87 percent in 2003-04. The ratio was 29.21 percent in 2004-05 and 29.50 percent in 2005-06. The ratio again increased to previous year to 35.05 percent in 2005-06. The standard deviation was 7.74 percent and co-efficient of variation was 32.87 percent. The average ratio was above average of industry.
A Study of Productivity and Financial Efficiency of Textile Industry of India

The above Table No. 4.13 indicated the return on net worth of BAC with an average of 11.25 percent. The ratio showed positive trend during the study period. The ratio was 0.00 percent in 2000-01 and the after it showed high of 2.99 percent in 2001-02 and 9.87 percent in 2002-03 the ratio again found increased to 16.91 percent in 2003-04. The ratio was 14.23 percent in 2005-06. The was the highest of 18.24 percent in 2006-07. The ratio had been on an average of 11.25 percent with standard deviation of 7.24 percent. The coefficient variation was 64.32 percent which showed business risk involved in the company.

An analysis indicates that the highest ratio of return on net worth was found in MAC followed by NAC, BAC, and IIC. The companies like IIC, BAC, and NAC need to increase net profit in order to increase return on net worth.
A Study of Productivity and Financial Efficiency of Textile Industry of India
**Return on Net worth Ratio (ANOVA Test)**

**Null Hypothesis:** There is no any significant difference in Return on Net worth Ratio of textiles units under study.

**Alternative hypothesis:** There is significant difference in Return on Net worth Ratio of textiles units under study.

**Level of Significance:** 5 percent

**Critical value:** 2.48

**Degree of freedom:** 41

**Table no.4.14**

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</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>258025.9</td>
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<td>Within Groups</td>
<td>1501906</td>
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<td>41720</td>
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<tr>
<td>Total</td>
<td>1759932</td>
<td>41</td>
<td></td>
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</tr>
</tbody>
</table>

Table no.4.14 indicates there was significant difference in Return on Net worth Ratio of textiles units under study because the calculated value of ‘F’ was lower than table value so, null hypothesis is accepted and alternative hypothesis rejected. It can be concluded that in Return on Net worth Ratio of textiles units under study are not deviated.
REFERENCES


3. Ibid. p. 25.


15. PANDEY I.M. “Concept of earning power” accounting Journal, vol. IV, April, 1998
