Chapter - VIII
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Cloth is one of the necessities of human beings in the civilized world like food and housing. (Bread, Cloth, housing) Yarn is the main raw material used for the production of cloth. The Indian cotton textile Industry, which is a major one on industrial map of India, has been facing several problems in the operational areas.

This chapter summaries the major findings and offers a few suggestions for improving the operational efficiency of the Co-operative spinning mills in Karnataka state.

FINDINGS

The main findings of the study are listed below under the following points.

1. Profile of Co-operative spinning mills in Karnataka.

2. Fixed assets management.

3. Analysis of capital structure

4. Working capital management

5. Analysis of profitability
I) Profile of Co-operative spinning mills in Karnataka State:

(i) None of the mill under study achieved the SITRA's standard of 95 percent of capacity utilization and 89 grams of SPP during the period under study. Some of the causes for this short fall are shortage of power, scarcity or inadequate supply of raw materials, deficiencies in indigenous infrastructures support, technology, process and equipment design, ageing of equipments, inadequate or improved inspection and maintenance, frequent break downs and long duration for gestation, lack of employees, morale, inadequate management system and lack of scientific approach, shortage of skilled and trained man power, psychological and other environmental factors.

(ii) Closed mills due to lack of working capital, mismanagement and modernization at Raichur, Bagalkot, Bijapur, Belgaum and Savadatti.

II. Fixed assets Management:

In the Co-operative spinning mills in Karnataka, the term “fixed assets” has been used for tangible fixed assets only. There are no intangible assets like patents, copyrights, goodwill, etc. Fixed assets are the assets of permanent nature and are incidental to production. They are consumed slowly in the production process over a considerable period of time. They are not meant for sale and replaced
periodically. They include the tangible assets like, land and building, plant & machinery, furniture and fixtures.

Efficient allocation of financial resource for the acquisition of fixed assets will enable an enterprise to achieve the objectives a profit maximization and wealth generation. The generation, evaluation, selection and execution of capital expenditure projects are carried out through the process of capital budgeting. Capital budgeting involves the investment of current funds most efficiently in the long-term activities keeping in view of such criteria as urgency, liquidity profitability, and risk sensitivity in anticipation of an expected flow of future benefits.

The overall and individual structure and growth of fixed assets of the respective mills during 1997-98 to 2001-02 the adequacy of fixed assets, efficiency to utilization of fixed assets, financing pattern of fixed assets, analysis of depreciation policy and capital investment decision are analyzed in this chapter.

1. Investment in fixed assets per spindle of installed capacity marked a decreasing trend because of the decrease in the amount of net fixed assets due to depreciation charges without any significant additions in fixed assets. Further, the analysis revealed that the installed capacity of all the mills under study was constant except mill ‘BCSM’ ‘GCTM’ ‘VCTM’ ‘RSNG’. The Co-operative spinning mills and very particularly mills ‘FCSM’ ‘SFCSM’
and 'TCSM' are awaiting modernization but the proposals of modernization schemes were pending due to the financial constraints. Thus it may be concluded that majority of the Co-operative spinning mills under study are working with inadequate fixed assets.

2. The fixed assets turnover ratio of mill 'BCSM' had gradual growth and this signifies that the level of efficiency in fixed assets management was satisfactory. In the other mill 'RSNG' shows increasing trend in this ratio during the whole period indicates increasing efficiency. It is good health that the mill 'FCSM' indicated in the year 1997-98, 1998-99 had satisfactory trend, after that the trend shows decreasing level, it was not satisfactory with the remaining mills. 'GCTM' 'TCSM' 'SFCSM' 'VCSM' indicates that the Co-operative spinning mills ratios had decreasing efficiency and it was not satisfactory.

3. The ratio of output in units to fixed assets registered a decreasing trend, where as the down put of yarn converted to 40s count kept fluctuating. The decreasing trend of this ratio may be the sign of bad performance in not efficient utilization of fixed assets.

4. Analysis of financing of fixed assets reveals that mill 'BCSM' and 'GCTM' has been trying to finance through long term funds and particularly owned funds. The ups and downs were negative and were quite frequent in the
ratios of mills 'SFCSM' 'TCSM' 'FCSM'. This situation showed that these three mills could not maintain a consistent policy of financing fixed assets. But still the situation is not out of control. However the conditions in mills 'RSNG' & 'VCSM' embarrass not only the long-term creditors but also the short-term creditors and lending institutions. The situation was in the extreme. The proportion of borrowed funds in financing fixed assets was increasing while there were no owner funds except mill BCSM and GCTM

5. Mill BCSM & GCTM has been trying to maintain a higher ratio, Thus ups and downs were quite frequent in the ratio of mills RSNG, FCSM & SFCSM. The ratio of fixed assets to net worth in mill 'SFCSM' registered increasing trend. During the whole period of study the ratio was more than 100 percent. The higher ratio indicates that the mill highly depended on borrowed funds. But in the year of 2001-02 the ratio was negative due to the negative net worth.

6. The too low ratio in mill GCTM & FCSM & SFCSM indicates the completion of estimated economic life of fixed assets. So that these mills have to take necessary steps to replace the assets.

7. An analysis of the above figures shows that a considerable portion of sales revenue was consumed by depreciation in mill 'RSNG' The ratio in the remaining mills reached a very small figure. It indicates that the depreciation
was not a cost due to the expiry of estimated economic life of the most of the equipments. Analysis further reveals that in some years of the study, the cost of maintenance and repairs of the plant and machinery was much more than the depreciation. The higher cost of repairs and maintenance was due to the old machinery in the mills, so it is suggested that the managements of these mills have to take necessary steps to replace the old assets as soon as possible.

WORING CAPITAL MANAGEMENT

1. An analysis of liquidity reveals that none of the co-operative spinning mills under study gave adequate security to the creditors as per the norm. However, the current ratio of mill ‘BCSM’ ‘GCTM’ and ‘RSNG’ (punctually) was always more than one and the management of the current funds in these mills was better than the other mills. The reasons for the lower current ratio in the other mills may include diversion of short-term borrowed funds for financing long-term requirements and continuous losses. The quick ratio of all the mills under study was far from the general norm of 1:1 during the entire period of the study. The situation was very critical in mills, ‘FCSM’ ‘SFCSM’ ‘TCSM’ and ‘VCTM’.

2. The Administrators are totally responsible for the working capital management of the Co-operative spinning mills. The management of the
working capital has not been recognized as a specialized activity to be handled only by experts in their respective fields. However, in some Co-operative spinning mills, it was stated that the chief executive had no say in the working capital management because these units functioned at the mercy of banks.

3. Budget containing detailed estimate of each component is used for estimation, allocation and control of working capital. Moreover, monthly working capital reports are forwarded to the federation/commission rate of textile. In addition they prepare annual funds flow statement but the analysis of variations was not made.

4. None of the Co-operative spinning mills under study has stable policy of inventory stocking. Either the mills invested more on inventory or they faced the problem of inventory shortage.

5. The different functions of inventory management are widely distributed among different persons in various departments, who are independent of one another.

6. The present purchase procedure, though working smoothly is a cumbersome process. The objective of obtaining the raw materials and stores and spares at the right price at the right time is not fulfilled. There are also instances of purchasing unrelated to the requirements.
7. The proper and complete inventory control techniques are mostly new to the Co-operative spinning mills. The mills do not fix the economic order quantity and purchases are made on the basis of past experiences. The mills have fixed minimum and maximum stock levels. However, there were instances of under stocking and overstocking of inventories due to the none matching of consumption with procurement, seasonal availability of raw materials, fluctuating demand pattern of yarn and inadequate control system.

8. Raw materials and stores of spares are valued at specific cost and average cost respectively. Work-in-process is valued at works cost and finished products are valued at works cost or market value whichever is less.

9. The collection of debts was satisfactory in mills ‘BCSM’ on the other hand mill ‘RSNG’ was not serious in collecting the debt maturities. Though the collection periods of mills ‘GCTM’ and ‘FCSM’ were moderate, there was not stable credit policy. Mill ‘VCTM’ was extremely in poor condition in credit policy. The too low ratio in mills ‘BCSM’ and ‘TCSM’ indicates that these mills followed a very stringent credit policy. Such a policy many avoid the collection problem, but it so severely curtails the sales in turn that it affects the profitability. Keeping in view the credit policy of the co-operative spinning mills the average collection period of debt seems to be higher almost in all the mills in some years. Therefore, the managements at
the mills have to speed up the collection machinery while relaxing their policy towards private agencies.

10. The Co-operative spinning mills face certain peculiar problems with regard to debtors. It is not possible to take punitive action against the debtors who have overdue because they are also in the co-operative fold. Another shortcoming in the collection of dues was, though they have the computers, there was no age-wise classification of receivables. It is due to the inadequate ability and training to the officials.

11. The Co-operative spinning mills under study, by and large, held inadequate cash balances to support their operational requirements. Nevertheless, the easy availability of cash credit funds from central co-operative banks has enabled the mills to overcome the problem at inadequacy. They have cultivated the habit of approaching the “Dhanwan” who would finance when these mills are in need. Further study revealed that mills ‘BCTM’ ‘GCTM’ ‘RSNG’. They kept large cash balances in the current account with the banks other than the central Co-operative banks in which they have cash credit account.

This is with the motive of avoiding the adjustment of cash to cover deficit in cash credit account. It has also been found that all the mills have faced many a time in the post the problem of cash shortage.
To meet the shortages, the mills have resorted to getting their cash credit limit raised, resulting in increased costs of operations.

**Analysis of Capital Structure.**

1. The important factors that affect capital structure of the Co-operative spinning mills are financial leverage cost of capital, stability and adequacy of earnings, tempo of business activity, credit standing and attitude of the government.

2. The components of capital structure of the Co-operative spinning mills are share capital, loans from government and financial institutions, government grants and subsidies and internal financing.

3. Generally in the Co-operative spinning mills, there is only one type of share capital i.e. equity share capital. There is not policy of raising preference share capital in the Co-operative spinning mills under study.

4. Some times at the instance of the government, the Co-operative spinning mills have to act non-commercially in respect of its operations, product pricing or employment. In such cases, government subsidies are given to them to meet the specific losses.

5. It can be inferred from the analysis of debt-equity ratio 'BCSM' and 'GCTM' used larger own funds for operating activities, while mills 'RSNG'
and 'VCTM' depended on borrowed funds instead of equity for their activities. The debt equity ratio in remaining mills is found not satisfactory.

6. The debt-equity ratio of mills 'RSNG' 'FCSM' & 'VCTM' was always negative during the period of study. It can be said that these mills were not in a position to absorb the shock of losses in case of liquidation and it is a danger signal for the creditors.

7. Mills 'FCSM' 'SFCSM' 'TCSM' 'VCTM' were highly geared while others were low geared. At the same time, it cannot be said that all the low geared mills were working with owner's funds, because mill 'RSNG' in all the years and mill 'GCTM' for some years. The only mill i.e. mill 'BCSM' was working with owner's funds but it needs long term in future for modernization.

8. An analysis of the financial leverage ratio shows that the Co-operative spinning mills were overburdened with interest. The rate of return on investment was not proportionate to the rate of interest, so the leverage gave only adverse effect.

9. An analysis it may be inferred that the Co-operative Spinning Mills were overburdened with interest. In some years for all the mills under study, the EBIT itself was negative and in some years the EBIT was positive but it was
not sufficient even to cover interest. Therefore the financial leverage has given a multiple negative effect to the mills.

10. Though many of the Co-operative spinning mills have the policy to allow the individuals participation in equity, there are several restrictions in practice.

11. Mills 'BCSM', 'GCTM' and 'SFCSM' only have the positive proprietary ratio for the whole period under study. In the case of mill 'BCSM' the position was better as compared to mill 'GCTM' and 'SFCSM' the other four mills namely RSNG, FCSM, TCSM, VCTM were in a very risky position. Analysis of these four mills reveals that if these two mills liquidated the bondholders may not receive even a part of their contribution.

**Profitability**

1. An analysis at gross profit margin of the respective mills under study revealed that though mill 'BCSM' and 'GCTM' earned satisfying gross profit during the whole study period. All other mills 'FCSM', 'RSNG' and 'SFCSM' upto the mark, 'TCSM' and 'VCTM' were in the instances of negative ratio. The reasons reported by the mills for the losses are glut in the yarn market. Workers unrest, increased labour and cotton cost. Increased cost in the generating power during power cost and lower machine productivity due to the lack of trained labour and modernization. In addition
to the above ‘SITRA’ says that “the poor technical efficiency of the mills is also the reason for losses” further the ‘SITRA’ pointed out that, “the present losses or low profits are not so much due to the lack of modernization as to want of good operational efficiency of the mills.” Therefore it is suggested that the mills should take measures to improve the operational efficiency without waiting for modernization.

2. Net profit margin of the respective Co-operative spinning mills shows that mill ‘BCSM’ had fluctuating trend, which in the case of mill ‘GCTM’ had alarming situation to improve the profitability and the mills RSNG, FCSM, SFCSM, TCSM the ratio was negative for the whole period of the study was also due to the non favorable market conditions. The situation was very serious in mill ‘VCTM’ which incurred heavy losses during the whole period of study. Further the analysis revealed that all the seven mills under study suffered losses in the last five years of the study. It was reported by the mills that the glut in the yarn market was the main cause, for the loss and no demand for yarn in National level market because of globalization. Therefore it is suggested that managements of the mills have to take immediate steps to reduce costs and improve the turnover to face the glut in market. In addition avoiding diversion of funds and training to labourers may reduce the interest burden.
3. The operating ratio of all the mills under study showed a poor performance as the ratio exceeded 100 percent. The mills under study did not achieve the rated performance even on new machinery. It can be well seen from the analysis of mills BCSM, and GCTM; therefore, top priority should be given towards monitoring the performance of machinery with evaluation of the returns from the investments. Further the SITRA observed, "for the level of modernization and the work assignment prevailing, the Co-operative spinning mills should achieve about 20 percent higher labour productivity and 15 percent higher machinery productivity. Lack of good machinery maintenance, adoption of wrong work practices, low spindle speeds, poor machine efficiency and inefficient supervision are responsible for the shortfall". Consequent to the low machine productivity and higher complement of labour engaged combined with poor operational efficiency, the labour productivity of the mills was found to be lower than the standard. Therefore it is suggested that the mills under study should exercise more care on control of its costs by improving the operational efficiency.

4. Overall trend of return on asset ratio shows negative, in that two mills kept fluctuating and was also more or less negative, during the period under review except in some instances discussed in interpretation. It can be
concluded from the foregoing discussions that in general the operating assets of the mills were not utilized efficiently and in a profitable manner.

5. The performance of the Co-operative spinning mills was highly unsatisfactory despite the fact that there were positive ratios in some instances. Here it is evident that all the Co-operative spinning mills except the mills GCTM & FCSM had negative capital employed due to the continuous losses. It is the indication of conversion of working capital to the long-term needs. Thus the interest paid on short-term borrowings substantially increased year after year. Though the Co-operative spinning mills could not provide at least the same rate of return on its equity as it would be equal to the cost of loan capital, they may avoid losses by improving their operational efficiency.

6. The EPS is not satisfactory and does not exhibit a particular trend in the selected Co-operative spinning mills. However the analysis of EPS revealed that all the Co-operative spinning mills suffered losses during the whole period of study due to the slump in the yarn market and increased cost of production, heavy interest burden due to too much reliance on debt was the cause for the losses.
The following causes why the CSMs are under continuous losses.

1. The mills have been denied the advantage of open market to sell the yarn at higher price.
2. The pricing policy is not favorable to the CSMs.
3. Production of yarns under high cost
4. Since they are mills of weavers, organized and the mills have to supply their required quality of yarn at fair price.
5. Sizes of the plants are abnormal in terms of installed spindles.
6. More expenses for repairs and maintenance due to breakdowns. So replacement needs.
7. Poor quality of cotton due to lack of cotton development scheme for high yield and quality.
8. The machinery being old and in need for modernization.
9. High price of raw material (cotton)
10. Lack of commercial and profitability orientation in their objective.

The co-operative spinning mills by cotton from the cotton growers and pays them remunerative prices.

They process the cotton into yarn; sell it to the handloom and power loom weavers and the textile mills at reasonable prices.
Measures for improving the capacity utilization and S.P.P.

1) Increasing availability of machinery and equipment by effective preventive and scheduled maintenance.

2) To take effective operational and managerial efficiency in CSMs.

3) To conducting training programs to their employees for effective and maximum utilization of their efficiency in Industry.

4) To keep good relation with other industry’s

5) Inventory control must be improved according to new ideas.

SUGGESTIONS

On the basis of the above observations relating to the study, the following measures are suggested to improve the Operational efficiency of the Co-operative spinning mills.

1. The elections should be hold regularly on time. Such elections and representatives of worker should be elected in true democratic spirit and the management should not be left in the lands of vested interests, which use its office of co-operative to further their political gains.
2. The mills should try to achieve the SITRA's standards of 95 percent of capacity utilization and 89 grams of spindle point productions. The bottle necks towards achieving these like. (a) Shortage of power (b) Inadequate supply of raw material (c) Old dated technology & ageing equipment (d) Long duration of gestation. (e) Shortage of skilled and trained manpower should be removed.

3. The mills have to take necessary steps to strengthen the fixed assets by modernization. Outdated technology is the main cause for increased cost of production.

4. Diversion of working capital is to be avoided, for which the long-term funds are to be enhanced to support at least the long-term requirements. Shortage of investment in working capital is affecting operational efficiency of the mills, the arrangement of working capital requirement is adhoc and dependent on sources like bank over draft, the mills should have long term and permanent arrangement for investment in working capital. Further the funds in working capital should not be diverted towards fixed assets acquisition.

5. It is imperative to pay proper attention to initial planning and execution of the projects. Longer gestation period will increase the project cost and the
mills will unnecessarily burden credit interest and other administrative expenses.

6. All the Co-operative spinning mills have to enhance the equity base by issuing shares and / or by generating internal resources. Over dependence on outsider's funds have two limitations. (a) There is no guarantee of availing such funds on time when they are required (b) The cost of such funds will be a burden on the societies.

Instead the co-operatives can issue new shares to the member and arrange for their capital requirements.

7. The different functions of inventory management should be encompassed to minimize administrative lead-time and proper inventory control techniques are to be adopted for the optimum investment in inventory. There should be proper co-ordination and listening between the various autocratic who are in charge of inventory control. The co-operative should always adopt new techniques in inventory ordering and holding to make optimum use of available resources.

8. The mills should follow a rationalized credit policy towards all kinds of customers based on their credit standing and at the same time they should expedite collections. The average collection period of debt is higher; the managerial should takes steps in reducing average collection period.
9. In financing working capital, it is necessary to convert the excessive short-term bank borrowings into term loans repayable in installments, the cooperatives do not have an adequate cash balance in hand. They depend on local moneylenders to make their working capital requirements the adhoc arrangement in working capital management, which will affect many operations.

10. The mills should improve their operational efficiency by taking various measures to yield the social surplus at least for the payment of taxes and interest and for absorbing the depreciation. The various causes for the looser mill be analyzed and the mills should make necessary correction to run the mills on profitable lines.

11. Timely planning, forecasting, audit of accounts is necessary to spinning mills, so management should keep a check on their operations.