CHAPTER-I
INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

The Indian textile industry is one of the largest in the world with a massive raw material and textiles manufacturing base. Our economy is largely dependent on the textile manufacturing and trade in addition to other major industries. About 27 per cent of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14 per cent to the industrial production and 3 per cent to the gross domestic product of the country. Around 8 per cent of the total excise revenue collection is contributed by the textile industry. So much so, the textile industry accounts for as large as 21 per cent of the total employment generated in the economy. Around 35 million people are directly employed in the textile manufacturing activities. Indirect employment including the manpower engaged in agricultural based raw-material production like cotton and related trade and handling could be stated to be around another 60 million.

This industry is poised to meet the increased global competition in the post 2005 trade regime under WTO. The consequent effects of unleashing a flood of imported textiles into India and also making the export markets far more competitive are being felt from now onwards. The textile industry in India has a strong multi-fiber raw material production base, vast pool of skilled personnel,
entrepreneurial talent, good export potential and low import content. Production systems are flexible, dynamic and vibrant. However, the industry’s above strengths get substantially diluted on account of production process disadvantages in certain areas in terms of technology and supply-chain management deficiencies. It is high time that adequate corrective measure were taken to prepare a technology savvy industry to meet the challenges ahead.

The ongoing globalization process is replete with threats from our competitors, particularly the export-lesser experienced economics like China to destabilise our export and local markets. At the same time, one should also realize that it offers unlimited opportunities. In order to withstand the competition both in international and domestic markets and accelerate our export growth, it is imperative to identify the strengths and weaknesses of the textile industry hindering its growth. Considering the inherent strengths of this industry in terms of a strong raw material base, skilled manpower and low wage costs, this industry has immense potential in the globalised textile economy. However, given the nature and extent of the fragmentation and technology obsolescence in the decentralized sector, it calls for a focused action plan and programmes to accelerate and sustain the growth level of the different segments of the industry.

In the above background, the Government of India as well as the important state governments having a significant presence of the textile industry reviewed the whole spectrum of textile industry. Based on the above discussions, appropriate road maps have been drawn up for the development and promotion of all the sectors of the textile industry from cotton to finished products.

**INDIAN TEXTILE INDUSTRY**

Indian textile history is very old. India was famous in the 16th century for its textile exports, especially export from Gujarat. During the British period, the East India Company took control over foreign trade. The first Indian cotton cloth mill was established in 1818 at Fort Gloaster, near Kolkata. This mill failed to cater to the demands of the country and the second mill established in 1854 and KGN Daber had laid the foundation for modern cotton industry. It had been named as Bombay
Spinning and Weaving Company. This Industry can be basically categorized into two segments: Organized and Unorganized. Unorganized textile industry is the largest in terms of numbers and it utilizes the traditional practices (Weaving and Spinning) in cloth production and hence is labour intensive in nature. Unorganized industry is characterized by the production of clothes either through weaving or spinning with the help of hands. Further, another important feature is that this industry is naturally considered as a decentralized one. It comprises three major segments viz., power loom, handloom, and hosiery. Apart from this, there are ready-made garments, khadi, as well as carpet manufacturing units in the decentralized sector. Organized sector constitutes another half of the Indian textile industry with the immense importance given to capital intensive production process. This represents spinning/composite mills like spinning and weaving and processing facilities carried out under the same roof. This sector is characterized by sophisticated mills where technologically advanced machineries are utilized for mass production of textile products.

Categories:

In the textile industry, the weaving sector has been identified as one of the poorest technological links in the value chain. What makes the problem more serious is that the decentralized sector, both the power looms, which are accounting for the production of 76 per cent of our fabrics needs, is marked by an overabundance.

The textile industry can be broadly classified into two categories, the organized mill sector and the unorganized decentralized sector. Being a controlled sector, the organized mill sector has a complete information base on the organizational set-up, machinery installation, production pattern, employment etc. However, information-base on the decentralized sector on the above parameters is inadequate and policy planning has so far been based on hearsay and rough indirect estimates.

The organized sector of the textile industry represents the mills. It could be a spinning mill or a composite mill. Composite mill is one where the spinning,
weaving and processing facilities are carried out under one roof. On the other hand, the decentralized sector has been found to be engaged mainly in the weaving activity, which makes it heavily dependent on the organized sector for their yarn requirements. This decentralized sector is comprised of the three major segments viz., power loom, handloom and hosiery. In addition to the above, there are readymade garments, Khadi as well as carpet manufacturing units in the decentralized sector. In a country like ours where labour is abundant and the unemployment poses a serious threat to the economic growth of the country, there is always a controversy about the production technology to be adopted. The mill sector’s competitiveness is at stake given the mushrooming of a large power loom sector which has production-function advantages. The textile production in case of the later entrants like power looms has therefore upset the entire production scenario. The power looms and mills are able to go for mass production with better quality products. Inspite of the fact that the industry could assimilate high technology levels for better quality production in the market, it has never adapted to the modern technology and, therefore, has remained obsolete. In the advent of globalization, the Government of India, as part of its modernization efforts, has decided to induct about 50,000 shuttles less looms and upgrade 2.5 lakh looms into automatic and semi automatic power looms and make it cost effective.

**IMPORTANCE OF INDIAN TEXTILE INDUSTRY**

Indian textile industry is the second largest industry in the world after China and it is self reliant and independent industry and has greater diversification and versatility. One of the main objectives of the Eleventh Five Year Plan was to accelerate GDP growth from 8 to 10 per cent and then maintain it at 10 per cent as well as to increase the energy efficiency by 20 per cent points in the Twelfth Five Year Plan in order to double the export income by 2016-17. As per AEPC, currently this industry contributes nearly 3 to 4 percentages to GDP; Next to agricultural sector, it generates employment for more than 35 million people and excise collections nearly 9 per cent and it contributes to 16 per cent share of the country’s export. About 27 per cent of the country’s foreign exchange comes from the textile
exports. It contributes to nearly 14 percentage of the total industrial production of the country.

In the international market, India is the largest exporter of yarn and has 25 per cent share in the world cotton yarn export market besides contributing to more than 12 per cent of the world’s production of textile fibers and yarn. While the Europe continues to be the India's major export market with 22 per cent share in textiles and 43 per cent in apparel, the US is the single largest buyer of Indian textiles and apparel with 10 per cent and 32.6 per cent share respectively. Other countries in the export list include the UAE, Saudi Arabia, Canada, Bangladesh, China, Turkey, and Japan. Spindle age has 23 per cent share in the world spindle capacity, including handlooms with 61 per cent in the world loom age. Garment/Apparel industry holds 12 per cent of the country’s total export and it is one of the largest foreign revenue contributors. According to AEPC advantages of India-fact sheet, India is the largest producer of jute products, second largest producer of silk and Cotton Yarn, second largest producer of cellulosic fiber/yarn, third largest producer of raw cotton, and fourth largest producer of synthetic fibers/yarn. India’s textile export has increased from Rs. 48676.6 crores in the year 2001-02 to Rs.106216.4 crores in the year 2010-11 (RBI Data).

Performance:

Indian textile industry is the second largest industry in the world after China and it is self-reliant and independent and has greater diversification and versatility. As per Apparel Export Promotion Council (AEPC), it accounts for around 4 per cent of GDP next to agriculture sector, 14 per cent of the industrial production, and 17 per cent of the country’s total export earnings. About 27 per cent of the country’s foreign exchange comes from the textile exports. Besides, the sector employs nearly 35million employees in both rural and urban areas. In the international market, India is the largest exporter of yarn and has 25 per cent share in the world cotton yarn export market besides contributing to more than 12 per cent of the world’s production of textile fibers and yarn. While the Europe continues to be the India's major export market with 22 per cent share in textiles and 43 per cent in apparel, the US is the single largest buyer of Indian textiles and
apparel with 10 per cent and 32.6 per cent share respectively. Other countries in the export list include the China, UAE, Saudi Arabia, Canada, Bangladesh, Turkey, and Japan.

Spindle-age has 23 per cent share in the world spindle capacity, including handlooms with 61 per cent in the world loom age. Garment/Apparel industry holds 12 per cent of the country’s total export and it is one of the largest foreign revenue contributors.

In South India Madurai region are producing 35 per cent cotton in Tamil Nadu, Tirupur and Erode are the largest producer of cotton vests in India and it is called as “textile valley of India” as it is exporting more to the South East Asian countries. Tamil Nadu is the second largest industrialized state (Second state after Maharashtra) in south India and fifth largest economy in India as per state Domestic product. It ranks third in FDI approvals after Delhi and Maharashtra. State investment constitutes 9.12 per cent of the total FDI in India.

**SWOT analysis on the Textile Units in South India**

**Strengths**

1. There are a large number of spinning mills located in the state that manufacture cotton yarn to ease the supply position and generate demand for yarn and supply of fabrics.

2. There are a large number of power loom owners and looms that are expanding in size over the recent period.

3. The state has a traditional handloom base which helps in consolidating the power looms and adoption of traditional varieties.

4. There exists relatively better infrastructure facilities for transport, electricity etc. that are most favourable for running the power loom weaving factories.

5. There are supportive engineering industries located in Coimbatore and Elsewhere.

6. There is a well-developed ginning industry and cotton cultivation is widespread in the state.
7. The state has the advantage of possessing adequate disciplined labour supply with low labour cost.

8. There are well established production bases for made-ups export as well as for domestic market.

9. The sector enjoys the advantage of catering to short batches for provision of varied designs.

10. There are adequate processing facility for yarn dyeing and production of yarn dyed fabrics.
Weaknesses

1. The most serious problem of the industry is the lack of adequate processing facilities; there are over dependence on hand processors and traditional items.
2. The majority of the SMEs are tiny and cottage type units without sufficient capital back-up.
3. Most of the looms in the state are plain looms with low technology level.
4. There is always water scarcity and there is an increasing trend in the paucity of water required for the textile processing industry.
5. There is also a disadvantage in the form of increased power tariff, fuel cost etc.
6. There is always a dichotomy in production pattern and a handful of master weavers control the entire production of the cluster.
7. The demand pattern in the state is observed to be mostly seasonal.
8. The product diversification in the sector is insignificant.
9. The quality of wider – width fabrics for meeting the export demand is lacking in many respects, which is acting as a disadvantage to the growth of the industry.
10. There is inadequate encouragement to manufacture technical textiles, which has greater potential for growth.

Opportunities

1. As per available information, the market for processed cotton fabric will increase in the European and other market and, therefore, the power loom industry may benefit and expand substantially. Further the growth in the export segment will be mainly from cotton made ups and garments along with processed fabrics.
2. Grey fabric export is continuing to grow and will show increasing trends.
3. Value added products will have greater demand and, therefore, processing will pay an important role.

4. India with traditional design and craftsmanship can command a greater market share for niche products in made-ups and garments.

**REVIEW OF PREVIOUS STUDIES**

Gabriel and Chandrasekaran (2015)\(^1\) found that State Bank of India is performing well and financially sound than ICICI bank but in context of deposits and expenditure, ICICI bank has better managing efficiency than SBI.

Anurag and Tandon (2012)\(^2\) revealed that the credit debit ratio in ICICI is higher than in SBI. The share of interest expenses in total expenses higher in ICICI as compared to SBI and the proportion of interest income to total income were higher in the case of SBI.

Vivek (2013)\(^3\) stated that the efficient management of finance is very important for the success of an enterprise. The performance of Tata Steel Ltd. is better than the SAIL because of its efficient management of inventory in Tata Steel Ltd. than that at SAIL.

Yuvaraj and Abate (2013)\(^4\) revealed that the growth, leverage, volume of capital, size and liquidity are the important determinant factors of profitability. But

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the liquidity ratio and leverage ratio are negatively correlated with the profitability ratios. The age of companies and tangibility of assets are not significantly related with profitability.

Akram and Munad (2012) found that there is a significant impact of bank size, credit risk, operational efficiency and asset management on the financial performance of Palestinian commercial banks.

Mesut (2013) identified the significant difference among domestic and foreign banks regarding the profitability, capital adequacy, asset quality, riskiness, size, liquidity and management effectiveness. The assets quality, return on equities, total assets and management effectiveness of domestic banks are higher is domestic banks than that in foreign banks.

Ahmad (2011) found that there exists a positive correlation between financial performance and asset size, asset affiliation and operational efficiency. The bank with higher total deposits, credits, assets and shareholders equity does not always mean that there has been profitability.

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Shikha (2014)\(^8\) identified that the debt equity ratio is higher in the ICICI bank which indicates the higher leverage of the bank. The lesser current ratio requires an efficient management of current assets of the bank.

Elijah et al., (2013)\(^9\) indicated that the major problems arising from the government financial regulations include lack of monitoring and evaluation of units on financial usage, long procurement precedents, lack of financial management training, late disbursement of funds and lack of audit personnel. These problems hinder good financial management practices in public secondary schools.

Yap et al., (2012)\(^10\) noticed that the important financial ratios which discriminate the failed firms from the successful firms are working capital management ratio and profitability ratios.

Pooja and Hemlata (2014)\(^11\) depicted that ICICI bank is performing better than SBI bank as it is able to generate more loans from its deposits to the customers.

Ben (2011)\(^12\) noticed that three most influential factors in pursuing sound financial management practices are pressure from bankers, external accountants and


providers of capital. The three most preventing factor for the adoption of financial management practices are expensive to maintain qualified accounts, difficult to understand and lack of internal accounting staffs.

Deresse and Rao (2012)\textsuperscript{13} stated that the profitability was significantly affected by efficiency in financial management practices such as accounting, reporting and analysis, working capital management, fixed asset management and financial planning and financial characteristics.

Kawane (2010)\textsuperscript{14} mentioned that careless financial management practices are the main cause of failure for business enterprises in Ghana.

Olawale et al., (2010)\textsuperscript{15} found out that the use of sophisticated investment appraisal techniques such as NPV and IRR methods have a positive impact on the profitability of the firm.

Horngren, et al., (2006)\textsuperscript{16} stated that preparing detailed financial plan or budgets will have a positive effect on profitability of the firm.

Kieu (2004)\textsuperscript{17} found that the effective implementation of financial management practices such as accounting information system, financial reporting and analysis, working capital management, fixed assets management and financial characteristics.


planning and good performance in financial characteristics such as liquidity and business activity have a significant positive impact on profitability.

Padachi (2006)\textsuperscript{18} identified that high investment in inventories and receivables is associated with low profitability. It requires an efficient working capital management practices.

Gill et al., (2010)\textsuperscript{19} found out statistical significant relationship between cash conversion cycle and profitability. The lengthy cash conversion cycle results in lesser profitability of the firm.

Uwalomwa and Vadiale (2012)\textsuperscript{20} revealed that the leverage improves financial performance when things are going well but workers performance when things are going poorly.

Sanjay and Sona (2009)\textsuperscript{21} discussed the factor analysis revealed six measures of capacity building which affects the export intensity of Indian apparel exporters. The study found the lack of working model, skilled workforce, IT and distribution networks which strongly affect the export performance.


Parwinder and Sandip (2012)\textsuperscript{22} investigated the factor influencing investment decision making of private equity managers from the 36 Singapore firms with the help of factor analysis. The important factors are cost of capital, availability of investment avenues and the government policies.

Polpi and Rao (2009)\textsuperscript{23} noticed the financial support to the Indian textile SME units, and the assistance in the technological up gradation by the Government of India produce a positive impact on its performance.

Anupkumar and Ray (2011)\textsuperscript{24} identified the factors affect the various technological levels of the organization in Indian apparel manufacturing firms. These are firm size, export orientation, top management commitment, cost of capital, technical skills and competitive advantage.

Marimuthu (2012)\textsuperscript{25} found that the financial performance of the textile industry in India is declining during the last one decade. The important causes for that poor performance are the increase in cost of materials, production and marketing of final goods.

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Marimuthu (2014)\textsuperscript{26} found that the management outlook in the highest impact factor on the performance of textile companies from the investment factors. It is also found that the competitors’ risk has a significant impact on performance of the companies. The advised remedial measures to improve the performance are upgradation to new technology; generate quality products with less cost, and maximum utilization of resources.

Chaudhary (2011)\textsuperscript{27} identified that the financial performance of the textile industry are in the down trend especially after multi fibre agreement. These are due to the competition of textile units in China. Even though the quality of Indian Textile is superior than others, its cost is not attractive at the international market.

Bardia (2010)\textsuperscript{28} analysed the existence of liquidity management practices and its consequences is the Pharma Industry. The Cipla Company is better than Torrent Pharma in its liquidity management. It has a significant impact on its financial performance.

Meenakshi (2014)\textsuperscript{29} showed that the profitability margins has slightly different due to volatile textiles market and volatility in raw material prices. The liquidity and solvency position is almost same in all the textile companies.

Sharma (2011)\textsuperscript{30} noticed that the financial performance and the financial management practices are consistently becoming in a decline trend. It is mainly due

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to the GATT and WTO regime. The future of Indian Textile Industry is highly questionable.

Kantawala (2002)\textsuperscript{31} concluded that there exists a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of non-banking financial companies. When two categories are examined against each other, then the more number of ratios are not statistically different from each other in majority of the cases except when trading in shares plus investment hoardings are compared with leasing.

Karamjit Singh (2002)\textsuperscript{32} found that the effect of capital structure on the cost of capital varies depending upon the size of the companies. The study supported the traditional viewpoint that the value of the firm increases with an increase in financial leverage but up to a certain limit. Beyond this limit the increase in financial leverage will increase its weighted average of composite cost of capital and hence the value of the firm will decline.

Masur A. Mulla (2002)\textsuperscript{33} concluded that the textile mills under study were just on the average of financial collapse. The financial health of the mills was never in the too healthy zone during the study period. The position of its performance front was very unviable and apprehensions of the total failure of the mills were inevitable and certain. The mills faced the problem of over trading owing to the

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inadequate load of working capital. The negative EBIT was a cause of serious concern.

Sakthivel Murugan (2002)\textsuperscript{34} concluded that the performance of Infosys Technologies Ltd. was extremely satisfactory, as by and large most of the ratios and tools applied for gauging the performance of the company during the study period have reported excellent results. Regarding the short term and long term solvency positions, the company has maintained a good condition. The profitability ratios have reported encouraging results during the study period.

Ashita Raveendran (2003)\textsuperscript{35} found that there is a shortage of working capital which has resulted in the low capacity utilization. Receivables account for the highest share of funds indicating the delay in making payments. There is an existence of idle capacities, overloading of assets, inadequacy of working capital accompanied by low turnover of inventories and receivables. Unfavorable purchasing and mark up policies, the inability of the management to improve sales, marked reduction in selling prices not accompanied by proportionate decrease in cost of goods and excessive competition were also indicated by the trends in operating ratio.

Kapil et al (2003)\textsuperscript{36} identified the internal critical success factors for small scale pharmaceutical companies are marketing, entrepreneur’s attitudes and abilities, product, financial management practices, technology competence and research and development whereas external critical success factors are Government policies, clusters and networking. At the same time, the important financial management practices consist of five variables, namely, capital planning, capital


structure management, cash flow estimation, inventory management and receivables management. The most important variable in the finance factor is inventory management.

Mulla (2003) analyzed the viability and operational efficiency of textile industry by use of ratio analysis. He identified that the performance of the units were unviable and apprehensions of a total failure of the unit were entirely justified. The units faced the problem of over trading owing to the inadequate level of working capital. The negative EBIT was a cause of serious concern and it was this that had eaten into the vitals of the current assets and ultimately the working capital.

Reddy (2003) examined the financial performance of paper industry in Andhra Pradesh. He found that the mills used debt excessively in relation to equity. There was a negative relation between debt and profit. The interest coverage ratio was very low and it signaled the impending solvency crisis. The mills did not maintain their cash balances at a consistent level. The abnormally high cash turnover was an indication on this overtrading. The operating expenses absorbed a high portion of operating revenues leaving a very meager operating profit.

Sankaran and Krishnaveni (2003) did a study on funds management in spinning mills. They found that the correlation coefficient of current ratio on profit before tax in respect of best consistent units works out to 0.03. It is a very low level of correlation. This is exceptional. This could be possible only when the level of inventory and receivables are kept at a very low level throughout consistently. This indicates their investments in inventory and receivable were low leading to a lower interest burden on the company.


Tamilmani (2004)\textsuperscript{40} revealed that the staffs working in the mills were not fully involved in the capital budgeting process. The question of screening the proposals formulated does not emerge, as there were limited numbers of proposals. For appraising the screened proposals, pay back methods were employed. Discounted cash flow techniques were not considered though there was scope for employing such techniques. The mills had a definite plan of action for implementing the proposals. But the management did not follow the time frame, which ultimately resulted in time and cost over run.

Bayineni (2004)\textsuperscript{41} stressed the importance of small scale industries in industrialization. By its less capital intensive and high labour absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialization. The sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

Jain et al., (2004)\textsuperscript{42} identified that the organizations should seriously think of improving the long term commitment with their suppliers. To improve the relationship with suppliers, the organizations should improve the factors like communication, information sharing and purchase function administration, which ultimately result in reducing cost of purchase and improvement in overall profits. The effective management of inventory and the debts is essential for the success of any automobile companies.

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Murty and Mishra (2004)\(^43\) analysed the indicators of corporate failure with the help of cash flow ratios. In total, nine cash flow ratios have been included for the analysis. These nine ratios are narrated into five important factors in sick units and four factors in non-sick units. The application of discriminant function reveals that the important ratios discriminate the sick and non-sick units are cash flow to total assets, cash flow to total liabilities, cash flow to current assets, cash flow to current liabilities and cash flow to total capital employed.

Nagarajuna and Basenna (2004)\(^44\) identified the important symptoms of sickness in SSI are working capital scarcity, decrease in generation of internal cash flows, continuous cash scarcity, decline in net sales, unable to repay the loans and unable to repay the financial bills. They identified important reasons for sickness are shortage of raw materials, managerial deficiency, inadequacy of finance, lack of market demand, lack of order, shortage of power and lack of skilled labour.

Saini et al., (2004)\(^45\) found that the causes for industrial sickness in small units are poor marketing of products and technology obsolescence. Apart from that, the poor management of funds and cash in the units lead to financial crisis. It represents the effective implementation of financial management practices in the units. Hence efforts need to be taken by the Government in this regard to eliminate the industrial sickness in the industry.

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Selvam et al., (2004)\textsuperscript{46} used the Z score analysis to find out the financial health of cement industry. They reveal that the financial performance of Indian cements was very unviable. The reasons for poor financial health are excess working capital, negative operating profit, failure to achieve the sales targets, excess debt and managerial incompetence of the unit.

Subhash Chander and Rajan Kumar (2004)\textsuperscript{47} identified that ‘percentage of production, ‘need based’ and ‘percentage of sales’ appear to be the three important basis used for determining size of working capital. The variables included in narrating the experiences of small scale units in obtaining short term finance from commercial banks were unaccounted expenses in entertaining officials/non-officials, unwillingness of bank authorities without approach, repeated requests are to be made, personal relations with the bank and periodical statement are strictly insisted.

Yadav and Jain (2005)\textsuperscript{48} used an index of professionalism to measure the financial management practices in public enterprises. They identified eight financial areas, namely capital budgeting, capital structure, dividend payment, working capital management, financial control, political risk, exchange risk and information system. They concluded that the public enterprises follow sound financial management practices by and large. However, for certain financial activities there is considerable scope for improving professionalism.


Renu Verma (2005) studied the impact of liquidity ratios on profitability. It showed both negative and positive association. Out of seven liquidity ratios, five ratios namely current ratio, acid test ratio, current assets to total assets ratio and inventory resource ratio showed negative association with profitability ratio. The remaining three ratios, namely working capital turnover ratio, receivable turnover ratio and the cash turnover ratio showed positive association with the profitability ratio. The profitability of the TISCO Ltd is significantly and positively influenced by inventory ratio, receivable turnover ratio and cash turnover ratio.

Sudarsana Reddy and Raghunatha Reddy (2005) evaluated the credit management practices in the selected small scale industries at Bangalore. They identified prime reasons for granting credit facility as sales promotion technique, bill receivables are the main form of credit sales. The credit worthiness of a customer is judged based on their past association with customer. Units collect dues from the customers directly and also through representatives and units do not prefer to go to the court of law in regard to defaulting customers.

Tanabe and Watanabe (2005) identified the causes of success in small and medium enterprises. The efficient information integration, optimization of market mechanism and less organization inertia are the prerequisites for the success of SMEs. They suggest a new policy direction effective to induce the technological innovation of SMEs in a service oriented economy by stimulating the maximum utilization of their potential competitive advantage.


Sriram and Shankar (2006)\textsuperscript{52} found that the factors determining capital structure are assets composition, collateral value of assets, earnings rate and compounded average annual growth rate. The profitability of the organization is dependent on the capital structure decision. For every one unit change in total debt, the profitability changed by 0.72 times. A levered firm will have tax benefits and will also magnify share holders returns.

Salid and Bildt (2009)\textsuperscript{53} analysed the impact of implementation of financial management practices on the performance of the small scale units. They have identified that the rate of implementation of financial management practices have a significant positive impact on their financial performance.

Hoang and Tran (2009)\textsuperscript{54} studied the awareness on financial management practices and its antecedents. They found that the level of awareness on the financial management practices is very poor in small scale industries. The important reasons for their poor awareness on financial management practices are their poor education level and lack of interest in enterprising.

Singh et al., (2010)\textsuperscript{55} identified the usages of financial factors for the financial upliftment of the SSI units. They mentioned that the recent past 10 years

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records of the financial transactions are the good predictors of the financial performance of the units.

RESEARCH GAP

Even though there are so many studies related to financial performance of the textile units at the state level, there is no exclusive study on the linkage between the implementation of financial management practices and the financial performance of the textile units. Hence the present study has made an attempt to fill up the research gap with the help of proposed research model.

PROPOSED RESEARCH MODEL

The proposed research model is given below:


OBJECTIVES OF THE STUDY

The objectives of the present study are confined

(i) To reveal the profile of sampled textile units;

(ii) To measure the implementation of financial management practices at the textile units;

(iii) To identify the association between the profile of the units and the rate of implementation of financial management practices at the units;

(iv) To evaluate the financial performance of the units with the help of financial ratios;

(v) To identify the discriminant ratios and the financial management practices in the composite and spinning mills; and

(vi) To measure the impact of implementation of financial management practices on the financial performance of textile units.
HYPOTHESES OF THE STUDY

Based on the objectives of the study, the following hypotheses are formulated.

1) There is no significant difference among the composite and spinning mills regarding the implementation of financial management practices and the financial ratios;

2) There is no association between the profile of the units and the rate of implementation of FM practices and financial performance; and

3) There is no significant impact of implementation of FM practices on the financial performance of the textile units.

METHODOLOGY

The methodology indicates the way of systematically solving the research problems. It is a science of studying how research is conducted. Under this, the researcher acquaints with the various steps involved in the research process. In general, the research methodology includes the research design, sampling frame work, sources of data, collection of data, analysis of data and limitations. In the present study, the above said measures have been strictly followed.

RESEARCH DESIGN OF THE STUDY

Research design constitutes the blue print for the collection, measurement and analysis of data for the fulfillment of research objectives. It is a conceptual structure within which the research is conducted. In the present study, the predetermined objectives have been focused. The methodology to collect the data and process the data have been done in a systematic manner. Hence, the applied research design of the study is descriptive in nature.

POPULATION OF THE STUDY

The population of the present study is the total textile units in South India. The number of composite and spinning mills in states namely Andhra Pradesh, Karnataka, Kerala and Tamil Nadu are presented in the Table 1.1.
TABLE 1.1
Number of Textile Mills in South India

<table>
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<th>Sl.No</th>
<th>State</th>
<th>Number of Mills</th>
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<td></td>
<td></td>
<td>Composite</td>
<td>Spinning</td>
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</tbody>
</table>


In total, there are 83 composite and 1126 spinning mills in South India. The numbers of textile units are higher in Tamilnadu which constitutes 80.15 per cent to the total. It is followed by Andhrapradesh with 167 mills which constitute 13.81 per cent to the total. The number of composite mills and spinning mills are higher in Tamilnadu with 46 and 923 units respectively.

Sampled Textile Units of the Study

The sample size of the present study is determined by the formula of

\[ n = \frac{N}{N_e^2 + 1} \]

Whereas \( n \)– Sample size; \( N \)– Population; \( e \)– Error of Acceptance. The determination of sample size in the present are presented in Table 1.2.

TABLE 1.2
Sample Size of the Study

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>[ n = \frac{N}{N_e^2 + 1} ]</td>
</tr>
</tbody>
</table>

TABLE 1.2
Sample Size of the Study
The total sampled composite mills came to 69 whereas the spinning mills came to 295 when the error of acceptance is 5 per cent level. Hence, the total sample size of the present study is 364 units.

**Distribution of Sampled Textile Units**

The stratified proportionate random sampling was applied to identify the sampled textile units in the present study. The distribution of sampled units in each type of mills under different states of Southern India is shown in the given Table 1.3.

<table>
<thead>
<tr>
<th></th>
<th>Composite</th>
<th>Spinning</th>
</tr>
</thead>
<tbody>
<tr>
<td>n</td>
<td>$\frac{83}{83(0.05)^2 + 1} = \frac{83}{1.2075} = 68.73$</td>
<td>$\frac{1126}{1126(0.05)^2 + 1} = \frac{1126}{3.815} = 295.15$</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>295</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>364</td>
</tr>
</tbody>
</table>
### TABLE 1.3
Number of Sampled Mills in South India

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>State</th>
<th>Number of Mills in</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Composite</td>
<td>Spinning</td>
</tr>
<tr>
<td>1.</td>
<td>Andhra Pradesh</td>
<td>2</td>
<td>43</td>
</tr>
<tr>
<td>2.</td>
<td>Karnataka</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>3.</td>
<td>Kerala</td>
<td>26</td>
<td>1</td>
</tr>
<tr>
<td>4.</td>
<td>Tamil Nadu</td>
<td>39</td>
<td>242</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>69</strong></td>
<td><strong>295</strong></td>
</tr>
</tbody>
</table>

The 69 composite mills are distributed to all four states on the basis of the proportion of total composite mills in each state with reference to the total composite mills in South India. The same technique was applied to distribute the sampled spinning mills in all four states. The random sampling technique was applied to identify the exact sampled units in each state through the lottery method.

**Response Rate on the Questionnaire of the Textile Units**

The questionnaires have been sent to all sampled textile units. Three consecutive attempts were made to collect the filled in questionnaire with an interval of 3 months between each attempt. The responses in composite and spinning mills in I, II, III attempts are shown in the Table 1.4.
TABLE 1.4
Response Rate on Questionnaire among the Mills

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Mills</th>
<th>Number of Mills in</th>
<th>Final Sample (Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>I attempt</td>
<td>II attempt</td>
</tr>
<tr>
<td>1.</td>
<td>Composite</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>2.</td>
<td>Spinning</td>
<td>91</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>32.42</td>
<td>29.12</td>
</tr>
</tbody>
</table>

In the I attempt, the total response rate on the questionnaire was only 32.42 per cent whereas in the II and III attempt, it were 29.12 and 25.10 per cent to the total. Hence the total response rate came to 86.53 per cent with the total 315 textile mills. Out of the 315 textile units, 246 are spinning mills and 69 are composite mills. The data collected from the above said 315 textile units are included for the present study.

DATA COLLECTION

The important source of data for the present study is primary data. The primary data was collected with the help of structured questionnaire. The questionnaire consists of three important parts. The first part consists of profile of the units. The rate of implementation of financial management practices at the units is covered in the second part. The third part of the questionnaire includes the level of financial performances with the help of various financial ratios in the textile units.

SCOPE OF THE STUDY

The scope of the study is confined to the textile units registered at All India Textile Mills Association, Mumbai. The textile units functioning in South India namely Andhra Pradesh, Karnataka, Kerala and Tamil Nadu are included for the study.

FRAMEWORK OF ANALYSIS
In the present study, the following statistical tools have been used to fulfill the objectives of the study. Depending upon the scale of data and the nature of objectives of the study, the statistical tools have been chosen. The selected statistical analysis and its usage in the present study are shown below.

1) ‘T’ test

The ‘t’ test has been applied to test the significant difference among the composite and spinning mills regarding:

   a) All financial ratios; and
   b) Level of implementation of financial practices.

2) One-way analysis of variance (ANOVA)

The one-way analysis of variance was administered to find out the association between the profile of units and the rate of implementation of FM practices.

3) Multiple Regression Analysis

The multiple regression analysis is applied when there is one dependent variable and more than one independent variables which are in interval scale. The fitted regression model is

\[ Y = a + b_1x_1 + b_2x_2 + \ldots + b_nx_n + e \]

Whereas

- \[ Y \] = dependent variable
- \( b_1, b_2, \ldots, b_n \) = Constants
- \( x_1, x_2, \ldots, x_n \) = Independent variables
- \( a \) = Intercept and
- \( e \) = Error terms

In the present study, it has been administered to find out the impact of implementation of Financial Management Practices on the financial performance in the textile units.

4) Confirmatory Factor Analysis
The confirmatory factor analysis has been executed to test the reliability and validity of the variables included in each construct. The convergent validity has been tested by the ‘t’ statistics of the standardized factor loading. The discriminant validity has been examined with the help of Average variance extracted by each construct and the square of correlation coefficient between any pair of constructs included in the analysis. In the present study, it is administered to evaluate the reliability and validity of variables in each financial management practices at the textile units.

5) Two Group Discriminant Analysis

Two group discriminant analysis is applied to identify the important, discriminant variables among the groups. It is used when the dependent variable is in nominal scale and the independent variables are in interval scale. The unstandardised canonical discriminant function is fitted. The fitted model is

\[ Z = a + b_1x_1 + b_2x_2 + \ldots + b_a x_a \]

Whereas \( Z \) = Total discriminant source
\( x_1, x_2, \ldots, x_a \) = Discriminant variable
\( b_1, b_2, \ldots, b_a \) = Canonical discriminant coefficient and
\( a \) = Constant

The Wilks Lambda has been computed to find out the discriminant power of the variables. The relative contribution of each variable in total discriminant score is found out with the help of product of unstandardized canonical discriminant coefficient and the mean difference of the respective discriminant variables.

In the present study, the two group discriminant analysis has been administered:

i) To identify the important financial ratios among the composite and spinning mills; and

ii) To study the important discriminant financial management practices among the composite and spinning mills.

6) Altman’s ‘Z’ score analysis
In order to examine the financial health of the selected units, the Altman’s ‘Z’ score analysis has been applied.

\[ Z = 0.012x_1 + 0.014x_2 + 0.33x_3 + 0.006x_4 + 0.999x_5 \]

Whereas 
- \( x_1 \) = ratio between working capital to total assets
- \( x_2 \) = ratio between net operating profit to net sales
- \( x_3 \) = ratio between net operating profit to total assets
- \( x_4 \) = ratio of owned capital to borrowed capital
- \( x_5 \) = ratio of sales to total assets

\( Z \) = Overall index

The guidelines established by Altman to classify the firms as either financially sound or bankrupt.

### Altman Guidelines for Healthy Zone

<table>
<thead>
<tr>
<th>Type</th>
<th>Z score</th>
<th>Interpretation</th>
<th>Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Below 1.8</td>
<td>Certain to fall</td>
<td>Bankruptcy zone</td>
</tr>
<tr>
<td>II</td>
<td>1.8 to 3.0</td>
<td>Uncertain to predict</td>
<td>Healthy zone</td>
</tr>
<tr>
<td>III</td>
<td>Above 3.0</td>
<td>Not to fall</td>
<td>Too healthy zone</td>
</tr>
</tbody>
</table>

1. Below ‘Z’ score 1.8, the unit is considered to be in bankruptcy zone. Its failure is certain and extremely likely and would occur probably within a period of two years.
2. If a unit has a ‘Z’ score between 1.8 and 3.0 its financial viability is considered to be healthy. The failure in this situation is uncertain to predict.
3. ‘Z’ scores of above 3.0, the unit is in too healthy zone. Its financial health is very viable.

### 7) Ratio Analysis

The ratio analysis has been used to find out the relationship between the financial facts during the period of the study. In the present study, in order to analyse the financial performance of the units, the following ratios have been computed.

- a) Current ratio
b) Liquid ratio  
c) Inventory to current assets ratio  
d) Inventory turnover ratio  
e) Net working capital to total asset ratio  
f) Working capital turnover ratio  
g) Fixed assets turnover ratio  
h) Total assets turnover ratio  
i) Cash to current assets ratio  
j) Cash turnover ratio  
k) Cash sales to total sales ratio  
l) Liquid funds to current liabilities  
m) Debtors turnover ratios  
n) Average collection period  
o) Receivable to sales ratio  
p) Bad debt loses to receivables ratio  
q) Capital and long term funds to total fixed assets ratio  
r) Proprietary ratio  
s) Capital to reserve ratio  
t) Capital employed to net worth ratio  
u) Borrowed funds to working capital ratio  
v) Debt equity ratio  
w) Asset composition ratio  
x) Collateral value of assets to total assets  
y) Return on capital employed (Earning rate)  
z) Return on assets and gross profit and net profit margins

**LIMITATIONS OF THE STUDY**

The present study is subjected with the following limitations

1. The present study is completely based on the financial data disclosed by the units in the filled-in questionnaire.

2. The present study is subjected only to the selected financial ratios.
3. The relationship between the dependent and independent variables are assumed as linear.

4. The scope of the study is confined to textile units in South India only.

5. Only limited financial management practices are included for the study.

6. The variables related to FM practices are identified with the help of previous research studies and the experts’ views and

7. The textile units are primarily classified into composite and spinning mills.

**SCHEME OF THE REPORT**

The entire study is divided into seven chapters

The first chapter deals with introduction, the need for the study, review of previous studies, research gap, proposed research model, objectives and the methodology adopted, limitations and chapterisation of the study.

The second chapter includes the conceptual framework of the study.

The third chapter exhibits the profile of the textile units.

The fourth chapter discusses the level of implementation of Financial Management Practices at the textile units;

The fifth chapter shows the financial performance of the units with the help of important financial ratios and the financial health of the units with the help of Altman’s ‘Z’ score analysis.

The sixth chapter deals with the impact of implementation of financial management practices on the financial performance of the units.

The seventh chapter presents the summary of findings, conclusion, policy implication and direction for future study.

**CHAPTER–II**

**CONCEPTUAL FRAME WORK OF THE STUDY**

Financial analysis is a process of evaluating relationship between various financial components to obtain a better understanding of a firm’s