Chapter - VI

Summary of the Findings, Suggestions and Conclusions
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CHAPTER – VI

SUMMARY OF THE FINDINGS, SUGGESTIONS AND CONCLUSION

The Indian textile industry, which supports cotton farmers with 2.5 crore acres under cotton cultivation, and earns significant foreign exchange, is struggling to survive. The recession across the globe has led to reduced consumption of textile items by importing countries, the cancellation and down-sizing of purchase orders and extended delivery period. The industry had its highest growth rate in the last few years and the investments in this industry have been doubling year after year since 2003. However, the scenario has totally changed from April-2007 onwards and the industry is now facing difficult times.

In this study, four major groups have been identified and ratio analysis is used.

The four major groups are:
1. Margin on sales
2. Return on total assets
3. Return on capital employed; and
4. Return on shareholder’s equity.

The total number of mills considered for the study (20 mills) has been classified into three, as small, medium and large, on the basis of their 10 years average total assets by using the formula X±0.5 S.D.

The following are the findings of the study.

6.1 FINDINGS

Margin on Sales

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<thead>
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<th>PBDIT/NS</th>
<th>Size-wise</th>
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<tr>
<td></td>
<td>The ratio in the small sized mills shows 1.4 percent as mean, and the large sized mills show 17.0 percent, whereas the medium sized mills show an average of 15.3 percent.</td>
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<td>The ratio in the more profitable group shows 17.1 percent as mean whereas the less profitable group shows 3.2 percent.</td>
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<td>From the mean, it is seen that the small, medium and large mills have higher PBDIT/NS in the more profitable group than the less profitable group. Among the more profitable group, the medium size mill has higher mean PBDIT/NS 0.185 and among the less profitable group, large mill has higher mean value 0.135.</td>
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<td>Metric</td>
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<tr>
<td>EBIT/NS</td>
<td>The ratio in the small sized mills shows -6.9 percent as mean, the large sized mills show 10.5 percent, whereas, the medium sized mills show an average of 8.7 percent.</td>
<td>The ratio in the more profitable group shows 10.4 percent as mean, whereas, the less profitable group shows -4.6 percent.</td>
<td>From the mean, it is seen that the small, medium and large mills have higher EBIT/NS in the more profitable mills than the less profitable mills. Among the more profitable mills, large size mills have higher mean EBIT/NS 0.111 and among the less profitable mills, the large size mills have higher mean values 0.079.</td>
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<tr>
<td>GR.CONT/NS</td>
<td>The ratio in the small sized mills shows -8.4 percent as mean, the medium sized mills show 25.0 percent, whereas, the large sized mills show an average of 33.4 percent.</td>
<td>The ratio in the more profitable group shows 32.2 percent as mean whereas the less profitable group shows -4.6 percent.</td>
<td>From the mean, it is seen that the small, medium and large mills have higher GR.CONT/NS in the more profitable mills than the less profitable mills. Among the more profitable mills, the large size mills have higher mean GR.CONT/NS 0.380 and among the less profitable mills, the large size mills have higher mean values 0.157.</td>
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<td>OP/NS</td>
<td>The ratio in the small sized mills shows -11.4 percent as mean, the medium sized mills show 6.4 percent, whereas, the large sized mills show an average of 6.8 percent.</td>
<td>The ratio in the more profitable group shows 7.5 percent as mean, whereas, the less profitable group shows -8.9 percent.</td>
<td>From the mean, it is observed that the small, medium and large mills have higher OP/NS in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium sized mills have higher mean OP/NS 0.090 and among the less profitable mills, the large mills have higher mean values 0.072.</td>
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<td>OCF/NS</td>
<td>The ratio in the small sized mills shows 2.0 percent as mean, the medium sized mills show 10.6 percent,</td>
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whereas, the large sized mills show an average of 7.6 percent.

**Profitable-wise**
The ratio in the more profitable group shows 9.9 percent as mean, whereas, the less profitable group shows 2.7 percent.

**ANOVA**
From the mean, it is seen that the small, medium and large mills have higher OCF/NS in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills have higher mean OCF/NS 0.132 and among the less profitable mills, medium size mills have higher mean values 0.069.

**PAT/NS(p)**

**Size-wise**
The ratio in the small sized mills shows -18.5 percent as mean, the medium sized mills show 1.3 percent, whereas, the large sized mills show an average of 4.2 percent.

**Profitable-wise**
The ratio in the less profitable group shows -16.2 percent as mean, whereas, the more profitable group shows 4.2 percent.

**ANOVA**
It is observed from the mean, that the small, medium and large mills have higher PAT/NS in the more profitable mills than the less profitable mills. Among the more profitable mills, both the medium and the large size mills have higher and same mean PAT/NS 0.046 and among the less profitable mills, the large mills have higher mean values 0.021.

**PBT/NS**

**Size-wise**
The ratio in the small sized mills shows -17.7 percent as mean, the medium sized mills show 1.7 percent, whereas, the large sized mills show an average of 5.08 percent.

**Profitable-wise**
The ratio in the less profitable group shows -15.9 percent as mean, whereas, the more profitable group shows 5.4 percent.

**ANOVA**
From the mean, it is learnt that the small, medium and large mills have higher PBT/NS in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills have higher mean value PBT/NS 0.057 and among the less profitable mills, the large mills have higher mean values 0.024.

**Return on Total Assets**

**EBDIT/TA**

**Size-wise**
The ratio in the small sized mills shows 6.5 percent as mean, the medium sized mills show 13.4 percent, whereas, the large sized mills show an average of 14.0 percent.
The ratio in the more profitable group shows 14.9 percent as mean, whereas, the less profitable group shows 6.5 percent.

From the mean, it is learnt that the small, medium and large mills have higher EBDIT/GTA in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills have higher mean EBDIT/GTA 0.155. Among the less profitable mills, the large size mills have higher EBDIT/GTA 0.134.

The ratio in the small sized mills shows 4.9 percent as mean, the medium sized mills show 9.3 percent, whereas, the large sized mills show an average of 7.1 percent.

From the mean, it is seen that the small, medium, and large mills have higher OCF/TA in the more profitable group than the less profitable group. Among the more profitable group, the medium size mills have higher mean OCF/TA 0.113 and among the less profitable mills, the large mills have higher mean values 0.071.

The ratio in the small sized mills shows 6.5 percent as mean, the large sized mills show 14.0 percent, whereas, the medium sized mills show an average of 13.4 percent.

From the mean, it is seen that the small, medium and large mills have higher EBIT/TTA in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills have higher mean EBIT/TTA 0.155. Among the low profitable mills, the large size mills have higher mean value 0.134.

The ratio in the small sized mills shows -4.9 percent as mean, the large sized mills show 3.5 percent, whereas, the medium sized mills show an average of 1.3 percent.
The ratio in the more profitable group shows 3.8 percent as mean, whereas, the less profitable group shows -5.0 percent.

ANOVA
From the mean, it is learnt that the small, medium and large mills have higher PAT/TTA in the more profitable mills than the less profitable mills. Among the more profitable mills, medium size mills have higher mean PAT/TTA 0.042 and among the less profitable mills the large size mills have higher mean values 0.029.

EBIT/TA Size-wise
The ratio in the small sized mills shows 1.8 percent as mean, the large sized mills show 8.8 percent, whereas, the medium sized mills show an average of 7.8 percent.

Profitable-wise
The ratio in the more profitable group shows 9.1 percent as mean, whereas the less profitable group shows 2.2 percent.

ANOVA
From the mean, it is seen that the small, medium and large mills have higher EBIT/TA in the more profitable mills than the less profitable mills. Among the more profitable mills, the small size mills have higher EBIT/TA 0.095 and among the less profitable mills, the large size mills have higher mean values 0.083.

Return on Capital Employed

EBIT/C.E Size-wise
The ratio in the small sized mills shows -2.8 percent as mean, the medium sized mills show 7.7 percent, whereas, the large sized mills show an average of 8.4 percent.

Profitable-wise
The ratio in the more profitable group shows 8.4 percent as mean, and the less profitable group shows -1.0 percent.

ANOVA
From the mean, it is seen that the small, medium and large mills have higher EBIT/CE in the more profitable mills than the less profitable mills. Among the more profitable mills, the small size mills have higher mean EBIT/CE 0.093 and among the less profitable mills, the medium size mills have higher mean values 0.077.

RET.CF/C.E Size-wise
The ratio in the small sized mills shows -0.7 percent as mean, the medium sized mills show 5.5 percent, whereas, the large sized mills show an average of 7.6 percent.
Profitable- wise

The ratio in the more profitable group shows 8.0 percent as mean, whereas, the less profitable group shows -0.9 percent.

ANOVA

From the mean, it is seen that the small, medium and large mills have higher RET.CF/CE in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills have higher mean RET.CF/CE 0.089 and among the less profitable mills, the large mills have higher mean values 0.065.

NPBI/C.E Size-wise

The ratio in the small sized mills shows 3.6 percent as mean, the medium sized mills show 8.1 percent, whereas, the large sized mills show an average of 8.8 percent.

Profitable-wise

The ratio in the more profitable group shows 8.8 percent as mean, whereas, the less profitable group shows 4.2 percent.

ANOVA

From the mean, it is seen that the small, medium and large mills have higher NPBI/CE in the more profitable mills than the less profitable mills. Among the more profitable mills, the small size mills have higher mean value NPBI/CE 0.091 and among the less profitable mills, the large size mills have higher mean value 0.078.

Return on Shareholders' Equity

PAT/TP.SH.EQ Size-wise

The ratio in the small sized mills shows -8.2 percent as mean, the medium sized mills show 27.5 percent, whereas, the large sized mills show an average of -1.9 percent.

Profitable-wise

The ratio in the more profitable group shows -2.2 percent as mean, whereas, the less profitable group shows 13.8 percent.

ANOVA

From the mean, it is seen that the small, medium and large mills have higher PAT/SH.EQ in the less profitable mills than the more profitable mills. Among the less profitable mills, the medium size mills have higher mean PAT/SH.EQ 0.674 and among the more profitable mills, no mill has higher PAT/SH.EQ.

OCF/SH.EQ Size-wise

The ratio in the small sized mills shows -20.8 percent as mean, the medium sized mills show -45.5 percent, whereas, the large sized mills show an average of -1.6 percent.
**Profitable-wise**
The ratio in the less profitable group shows -4.5 percent as mean, whereas, the more profitable group shows -44.7 percent.

**ANOVA**
From the mean, it is seen that the small, medium and large mills have higher OCF/SH.EQ in the more profitable mills than the less profitable mills. Among the more profitable mills, the large size mills have higher mean OCF/SH.EQ -0.004 and among the less profitable mills, the large size mills have higher mean values -0.066.

**RET.EAR/SH.EQ Size-wise**
The ratio in the small sized mills shows -12.4 percent as mean, the medium sized mills show 39.6 percent, whereas, the large sized mills show an average of 6.1 percent.

**Profitable-wise**
The ratio in the more profitable group shows 5.1 percent as mean, whereas, the less profitable group shows 15.7 percent.

**ANOVA**
From the mean, it is learnt that the small, medium and large mills have higher RET.EAR/SH.EQ in the less profitable mills than the more profitable mills. Among the less profitable mills, the medium size mills have higher mean RET.EAR/SH.EQ 0.863 and among the more profitable mills, the large size mills have higher mean value 0.064.

**T.T.A.R Size-wise**
The ratio in the small sized mills shows 96.0 percent as mean, the large sized mills show 87.0 percent, whereas, the medium sized mills show an average of 92.3 percent.

**Profitable-wise**
The ratio in the more profitable group shows 93.5 percent as mean, whereas, the less profitable group shows 91.4 percent.

**ANOVA**
From the mean, it is seen that the small, medium and large mills have higher TTAR in the more profitable mills than the less profitable mills. Among the more profitable mills, the small size mills have higher mean TTAR 1.232 and among the less profitable mills, both medium and large mills have equal higher values 0.997.

**RCF/GCE Size-wise**
The ratio in the small sized mills shows -1.5 percent as mean, the medium sized mills show 7.7 percent, whereas, the large sized mills show an average of 9.4 percent.
The ratio in the more profitable group shows 10.2 percent as mean, whereas, the less profitable group shows -1.1 percent.

**ANOVA**

From the mean, it is seen that the small, medium and large mills have higher RCF/GCE in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills have higher mean RCF/GCE 0.114 and among the less profitable mills, the large size mills have the higher mean values 0.081.

The ratio in the small sized mills shows -44.2 percent as mean, the medium sized mills show 83.48 percent, whereas, the large sized mills show an average of 20.92 percent.

**ANOVA**

From the mean, it is seen that the small, medium and large mills have higher INT.COV.R in the more profitable mills than the less profitable mills. Among the more profitable mills, the medium size mills, have higher mean INT.COV.R 13.843 and among the less profitable mills, the large size mills have higher mean value 1.717.

### 6.2 SUGGESTIONS

Based on the above findings, the following suggestions have been made.

- Reduce the payout ratio, as this would increase the proportionate of earnings available, to finance in profitable activities of the mills.
- ‘Lease’ as against ‘buy’, as it requires less investment in assets and thereby, adopt cost-effective assets management strategy. The funds thus made available, may be productively employed for increasing the profitability.
- Judicious planning of operative cost would result in the increased profits of the mills.
- Increase leverage to utilize the unused debt capacity and provide funds for further growth.
- The loss making firms, having a negative growth, either for the entire period or for the part of the period, can apply composite profitability index model on the quality...
of earnings and sustainable growth, Altman’s model and Lambda index to decipher the areas of weakness and take remedial measures.

- The quality of earnings should be enhanced in the more profitable firms by optimizing their return, through the optimal asset management and cost management. The composite profitability index suggested in this study, can be tested on the firms’ profitability, to determine its market position. The liquidity index, when given weightage, is capable of determining a trade off between profitability and liquidity, thereby, constituting a competitive edge in the market.

- The rupee’s appreciation against the US$ and rise in cotton prices impacted the export of textiles from India and also its profitability. To mitigate the impact of the negative factors, Indian textile companies took recourse to measures, such as, replacing US$ dollar denominated export orders with other currencies, increasing revenue from value-added products, and diversifying into other emerging export markets.

- The budget allocations of funds to the scheme for Integrated Textiles Parks, will facilitate setting up of dedicated textile hubs.

- Steps may be taken to attract more number of foreign retailers in textile marketing. This will help to utilize the full capacity of the industry, which results in the improvement of profitability of textile mills in Tamil Nadu.

- Steps may be taken to equip the textile industry to withstand the pressure of import penetration and maintain dominance of growing domestic market.

- Effective policies may be framed for the encouragement of innovation and improvement of productivity, through upgradation of technology along with development of human resources.

6.3 CONCLUSION

The textile industry in our country is one of the few industries, which has the potency to emerge as a true global player. The Government has already embarked on a role of industry-friendly, pro-active ‘facilitator’. Recognizing the fact that the industry needs a concerted strategy and time-bound action plan, to convert its core competence in the availability of all major raw materials, skilled manpower, managerial competence and entrepreneurial skill, to a competitive strength, as producer and supplier of top quality of textiles at competitive prices, while protecting its domestic turf, the Government has initiated the necessary policy measures. With the growing awareness in the industry of its
strengths and weaknesses and the need for exploiting the opportunities and averting the threats, coupled with the Government’s catalytic role, the Indian textile industry has the potential to scale new heights in the globalized economy. For this to happen, the industry, the State Governments and the Central Government may adopt strategies and work in close co-ordination and co-operation.

Scope for further research

The same tools and methodology can be adopted for any industry in the lines of production. The scope also includes ascertainment of leverage management from the shareholders’ point of view.