ABSTRACT

Handloom activity occupies a key position in the diversification of Indian rural economy and it plays a vital role in meeting the clothing needs of the people by producing about 19 oer cent of the total cloth production (7352 million square metres), employing directly about 7 million workers. The New Textile Policy: 2000 has set forth the vision to make the textile sector increasingly contribute to the provision of sustainable employment and the economic growth of the nation. There are about 1382 primary handloom weavers' co-operative societies in Tamil Nadu covering nearly 3.44 lakh handlooms. They produce about 950 lakh metres of cloth (cotton and non-cotton blended items of cloth) per annum. They recorded a sale of Rs.4000 millions in the year 1999-2000. Evaluation of financial performance of these handloom societies will give a valuable feedback to the promotional agencies for further development of their activities in pursuit of integrated rural development.

The present study proposes to examine all the issues relating to the financial management of the selected handloom co-operative societies in Tamil Nadu. It seeks to analyse and evaluate both long term and short term funds in addition to those factors, which are crucial for the financial health of the societies. The specific objectives of the present study are

i. to measure the trends in production and sales over a period of time;

ii. to estimate the contribution of the handloom society in the form of value addition;

iii. to compute the profitability measures;
iv. to highlight the strategies adopted by the societies in the mobilisation and deployment of funds;

v. to assess the management of working capital; and,

vi. to gauge the financial health of the handloom societies.

This explorative study covers a sample of selected handloom societies functioning in Tamil Nadu. The handloom societies have been classified into four categories on the basis of their line of output, namely handloom co-operative societies producing

1. pure silk goods, especially silk sarees;
2. pure cotton goods;
3. furnishing material like bedspreads, towels, screens, and tablemats; and,
4. blended goods using cotton and synthetic yarns.

Thus, in each category of output four societies, the two largest and the two smallest were selected and the total sample consisted of sixteen societies for the four categories of output as shown in Table 2.1.

Analysis of the trends in production and sales largely confirms the hypothesis that competition from the mill sector and the powerloom sector keeps down the growth rates of these societies. However growth rates are low or negative even in three of the four societies producing silk goods which are free from the competition from the mills and powerlooms. It is basically the quality of the management that determines the fortunes of the societies as demonstrated by the consistent growth in Tirubuvanam, Deerar Sathiyamurthy and Chenkumar Societies.

The analysis of VAM disproves the hypothesis of value addition being a function of the unit value of output and size of the
society, since pure cotton goods and furnishing goods have accounted for high value addition than silk goods and since some small societies have produced higher value added by manufacture than some large ones. In each of the four categories, the two larger societies performed better than the two smaller societies because of efficient management and prudent utilisation of resources. The efficient societies devoted their resources to expansion of production and sales generating VAM and profits. Innovative management also participated in the export drive securing higher unit price and large profits. The poor performance of the remaining two societies was due to managerial inadequacies, diversion of funds for construction of housing and office building and financial bungling. Revamping of the management, adherence to financial discipline and prudence would be necessary for the revival of the sagging societies in respect of value added by manufacture.

Gross profit ratios in many of the societies were low because of the uncontrolled rise in price of yarn and other inputs. Especially small societies could not manage costs and prices profitably because of the uneconomic scale of operations. Large societies are found to be more profitable than small societies especially in pure silk category and furnishing goods category. Societies earned more profit than those societies, which are saddled with unproductive investments and financial irregularities. The societies should have freedom to procure yarn according to the prevailing market prices and this will improve gross margin of the societies. Control over overheads should be strengthened for management of costs. These measures coupled with adoption of profitable lines of output would strengthen the profitability of the societies.
Fund Flow Analysis of sixteen handloom societies under four categories reveals that only four societies producing silk and furnishing materials could generate substantial resources through retained earnings. Even relatively successful large societies producing pure cotton goods and blended goods could not rely on plough-back for additional funds. As a result, most of the societies depend on capital expenditure loan and working capital loan for long term funds and short term funds respectively. The fund flow analysis has largely proved the hypothesis that these societies have very little of plough-back and largely rely on loan funds for additional resources. Most of the societies used additional funds for financing stocks and paying debtors and for making advances to weavers. Thus, many societies have large stocks and debtors, which should be brought down for augmenting cash resources. The analysis reveals the effects of sagging sales and meagre profitability of the handloom industry. Identification of profitable lines of output and re-orientation of marketing strategies focussing on customerisation alone can improve the financial condition of the societies.

Analysis of the operating cycle reveals the varying levels of efficiency in the management of working capital in the selected societies. Because of the seasonality of marketing and competition from the mill sector and the decentralised powerloom sector, the societies have to tackle the problem of long storage cycles and collection cycles. The hypothesis that the operating cycle will be long due to long storage cycle had been confirmed by the findings. However, some small societies achieved shorter operating cycles than the large societies because of their managerial competencies. The inadequacy of cash resources
resulting from the long operating cycle has led to higher duration of trade credit and negative net raw material cycles.

The present exercise examined the financial status of the selected handloom societies with the help of Altman's Z scores, used for prediction of bankruptcy. Among the sixteen societies under study four societies, Tirubuvanam Society, Arignar Anna Society, producing silk goods; Chenkumar Society and Veerappan Chatram Society producing furnishing goods have recorded high Z scores, exceeding 2.63, indicating comfortable financial status. Also these four societies performed better than the others in respect of liquidity, turnover of assets, production, sales and profitability. However, even these four societies have idle assets, indicating scope for expansion of operations and improvement of profitability. Other societies suffer from low Z scores because of inadequate scale of operations. And these societies have remained liquid thanks to the prudent use of working capital loan.

A District Level Advisory Committee can guide these societies in the assessment of market conditions and identification of suitable tools and designs and saleable lines of output. It is, therefore, necessary to consisting of a textile technologist, a textile merchant, an economist, a management consultant and the Assistant Director of Handlooms and Textiles, who can be the convenor of the committee. The committee should study the market conditions and periodically advise the societies about the promising lines of output keeping in mind the fashion changes. The committee should advise the societies on modernisation and renovation of looms with Dobbies and Jacquards and on upgradation of dye house facilities considering their merits in production and sales.
The Directorate of Handlooms the Textiles should periodically publish information about the availability of stocks in the societies for the benefit of the private traders who can order the supply directly from the societies concerned. This measure will help to reduce the unsold stocks lying with the societies.

Quite a few societies had to encounter decline in their operations because of this unauthorised diversion in anticipation of reimbursement. Therefore, these projects like expansion of facilities and construction of housing can be considered only on the receipt of the funds from appropriate agencies. Investigation of irregularities and initiation of disciplinary proceedings should be made prompt enough to deter recurrence of misdeeds.

In the case of societies, which have become sick or dormant because of diversion of funds to the other projects a one-time bail-out package can be introduced for the rejuvenation of the societies. The package should consist of waiving of the interest on the existing loans, grant of new working capital loan and appointment, of a Special Officer in the place of the elected board. After completion of the process of recovery, the societies may be handed over to the elected Board of Management.

Co-optex should intensify its efforts in export drive and pass the benefits of export orders to the small handloom, societies to sustain their operations profitability. Alternatively, the Ministry of Textiles, Government of India, may establish a scheme called 'Export Development Fund' (EDF) to sanction adequate credit facilities for the smaller societies to upgrade their production facilities in their handloom, impart training to weavers in quality production of handloom goods that meet international requirements and interest free working capital loan for those who volunteer for export drive on their own.
The present system of quota based handloom export will expire by the end of 2004 AD. Thereafter, the exporters of handloom goods will have to compete with cost effective mill made textile goods in the international markets. For participating in such export in the open market, exporters will have to obtain ISO certification. It is, therefore, necessary for the handloom societies to obtain the ISO 9002 certification facilitating their exports.