CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Indian textile industry, the leading industry in the world, was a predominantly an unorganized industry even a few years back, but the scenario started changing after the economic liberalization of Indian economy in 1991. The opening up of economy gave much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world. Indian textile industry largely depends upon the textile manufacturing and export. It also plays a major role in the economy of the country. India earns about 30 per cent of its total foreign exchange through textile exports. Further, the textile industry of India contributes nearly 14 per cent of the total industrial production of the country. It also contributes around 3 per cent to the GDP (Gross Domestic Product) of the country. The Indian textile industry is the largest in the country in terms of generating employment opportunities, currently it generates employment opportunity for more than 35 million people. It not only generates jobs in its own industry, but also opens up scope for other ancillary sectors.

In Tamilnadu, the textile industry, the state’s oldest and most deeply rooted manufacturing sector is equipped with productivity-enhancing, job-generating and innovative - with many textile mills having pushed the organized mill sector to the wall due to global demand rather than defensive and income concentrating. The spinning sector in particular was suffering from recession, currency crisis, fiscal policies of the government of India. Despite the problems, some firms were better performing by adopting new product lines, reorganizing production, and absorbing new technologies to move upmarket into superior quality yarn. Yet to improve the financial performance and to meet the global competition firms has to concentrate on working capital management to utilize the various sources of funds to improve liquidity and profitability.
1.2 WORKING CAPITAL MANAGEMENT EFFICIENCY

Working Capital is regarded as the lifeblood of a business. It plays a vital role in keeping the wheels of a business enterprises running. Every organization whether profit oriented or not; big or small; manufacturing or processing needs requisite amount of working capital. Retaining of adequate working capital is indispensable for smooth running of any kind of industry. A business enterprises with ample working capital is always in a position to avail advantages of any favorable opportunity either to buy raw material or to implement a special order or to wait for enhanced market status. Estimation of working capital is required because, amount of working capital varies across companies over the periods depending upon the nature of the business, nature of raw material used, process technology used, nature of finished goods, degree of competition in the market, scale of operation, credit policy etc., therefore, a significant amount of fund is required to invest permanently in the form of different current assets. Every successful textile companies may need working capital funds when unexpected circumstances arise. In textile industry working Capital is utilized for the payment of lease charges, employee’s payroll, and any other operating costs that are involved in the day – to – day operations of the business. When working capital is managed improperly and is allocated more than the required amount, it will result in reducing the efficiency and leading to degradation of the company’s credit standing as it cannot respond efficiently to temporary capital requirements. Hence it should be managed properly for the companies’ efficiency and financial strength.

Efficient management of working capital includes management of various components viz., cash management, receivables management and inventory management. Maintaining the optimum balance each of the working capital components is necessary for the smooth running of a business, to maintain liquidity and to made profitable investment opportunities. The most efficient allocation of working capital reduces the risk. The amortization of risk-profitability relation is mostly achieved within the balance between the need of current assets and sources mobilized for its funding. In order to decrease the risk, the management of current assets should be aimed at eliminating the stock rupture which causes lack of liquidity and the financing sources, the financial autonomy of the working capital and
cost of purchasing the necessary capital are also to be explored. To improve the profitability, the management of current assets is aimed at achieving the working capital with a minimum level of current assets and the management of current liabilities aims at the lowest cost of procuring the necessary capital. To increase the liquidity of the current assets, investments are to be in the form of debts coverage from returns and reserve to be kept in account as safe. Each textile company has to identify these policies of management of working capital with different effects on profitability and risk.

1.3 STATEMENT OF THE PROBLEM

Financial soundness of a business enterprise largely depends upon the liquidity, productivity and profitability of the business enterprise. The liquidity can be achieved by managing the different parts of working capital such as cash management, proper debt collection policy and inventory management. A study of management of working capital of textile companies is more appropriate for internal and external analysis. Moreover, one of the serious problems faced by the cotton textile industry in India is the incidence of sickness. There are many reasons for sickness of textile industry; one of the reasons is improper management of working capital. As there is no readymade solutions for management of working capital in a firm, the responsibility of fund management has drawn greater attention for the smooth functioning of an enterprise. Hence, an attempt has been made to estimate different indices for the performance of working capital, to study the impact of working capital ratios on profitability, to know the growth trend, financial structure and financial health of the selected companies in the textile industry.

1.4 OBJECTIVE OF THE STUDY

1. To analyse and compare the financial performance of the selected textile companies in Tamilnadu.
2. To examine the analysis of growth trend of selected textile companies in Tamilnadu.
3. To assess the impact of working capital ratios on profitability.
4. To analyse the financial structure, financial position and financial health of the selected companies of textile industry.
1.5 HYPOTHESIS OF THE STUDY

1. There is no significance difference between actual sales and trend value of sales among different years in the selected textile companies.

2. There is no relationship between return on total assets and selected financial dimension ratios in selected textile companies.

3. There is no relationship between selected working capital ratios and profitability ratio (profit before tax to total assets ratio) of selected textile companies.

4. There is no significance difference between actual working capital and trend value of sales among different years in the selected textile companies.

1.6 METHODOLOGY AND RESEARCH DESIGN

1.6.1. Research Design

The study is Ex Post Facto based on survey method. According to Prowess' corporate database developed by “capita line plus” & CMIE, (Centre for Monitoring Indian Economy).

1.6.2. Sampling Design

There are 871 organised companies operating in the Indian Textile Industry. In Tamilnadu 292 were organized and from these organized companies a sample of twenty seven mills who registered in SIMA (South Indian Manufacturing association) have selected based on the turnover and whose financial information available for 11 years (from 2001 – 2011). It has categorised into Large, Medium and Small Scale.

TABLE -1.1. CATEGORISATION OF COMPANIES

<table>
<thead>
<tr>
<th>S.No</th>
<th>Categories of Companies</th>
<th>Turnover (in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Large scale</td>
<td>100 Cr and above</td>
</tr>
<tr>
<td>2.</td>
<td>Medium scale</td>
<td>Between 50 and 100 Cr</td>
</tr>
<tr>
<td>3</td>
<td>Small Scale</td>
<td>Below 50 Cr</td>
</tr>
<tr>
<td>Large Scale Mills (Rs100 Cr and Above)</td>
<td>Medium Scale Mills (Between Rs 50Cr and Rs 100Cr)</td>
<td>Small Scale Mills (Below Rs 50 Cr)</td>
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<td>--------------------------------------</td>
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<tr>
<td>2. Rajapalayam Spinning Mills Ltd.</td>
<td>2. Super Sales Spinning Mills Ltd.</td>
<td>2. Thambi Modern Spinning Mills</td>
</tr>
<tr>
<td>4. Lakshmi Mills &amp;Co Ltd.</td>
<td>4. Sri Ramakrishna Spinning Mills Ltd.</td>
<td>4. Sundaran Textile Ltd.</td>
</tr>
<tr>
<td>5. Prime Urban Development India Ltd.</td>
<td>5. Marris Spinners Mills Ltd.</td>
<td>5. Binny Ltd.</td>
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<tr>
<td>9. Ambika Cotton Spinning Mills Ltd.</td>
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<tr>
<td>10. Sree Karpagambal Mills Ltd.</td>
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<tr>
<td>11. Sambandam Spinning Mills Ltd.</td>
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</tbody>
</table>

Source: Capital Line plus (CLP)

1.6.3 Source of Data

The data for the present study have been collected from secondary sources as furnished in “capita line plus” & CMIE database.

1.6.4. Selection of Period for the Study

The period for this study covered eleven years from 2000-01 to 2010-11 and the financial year runs from 1st April to 31st March every year.
1.6.5. Statistical Tools Used

To identify the solutions to the research problem and to reach the objectives of the study, multivariate techniques and trend analysis have applied.

a) **Correlation Analysis**: Correlation Analysis has applied in order to identify the significant relationship among the profitability variables in selected textile companies.

b) **Multiple Regression Analysis**: Multiple regression analysis is applied to measure the effect of the independent variables (profitability variables) on the dependent variables (Return on Assets).

c) **Trend Analysis**: In trend analysis by using Least Square method future trend is predicted up to financial year 2016.

d) **Compound Growth Rate Analysis**: To analyze the general performance and growth pattern of the selected textile companies for a given period of time, compound growth rate analysis has applied.

e) **Path Analysis**: Path analysis has used to assess the contribution of profitability variables on return on total assets.

f) **Z score Analysis**: To evaluate the financial health through profitability of the textile companies in Tamilnadu, the Z score analysis has used.

1.7 LIMITATIONS OF THE STUDY

- Financial information collected for the present study is entirely secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data and financial information.

- The study is restricted to selected companies only for the period of eleven years.

- While computing the data for the purpose of analysis, the approximation of decimal places leads to minor variations in ratios as well as percentage analysis and hence these are bound to exist in the present study.

- Various accounting and statistical tools extensively used for the present study have their own incidental limitations.
1.8. CHAPTER SCHEME

The First Chapter deals with the introduction, statement of the problem, objectives of the study, hypothesis, research methodology, limitations of the study and chapter scheme.

The Second Chapter contains the review of literature.

An overview of working capital management in textile industry and a brief profile of the selected textile companies in Tamilnadu have discussed in third chapter.

The Fourth Chapter presents the analysis of the variables related to working capital, to know the impact of working capital ratios on profitability, to assess the financial structure and financial health of selected textile companies in Tamilnadu.

The Fifth Chapter presents research findings, suggestions, conclusion for the present study and the scope of further research.