Chapter 7
Summary of Findings and Suggestions

This chapter summarises the major findings and offers a few suggestions for improving the financial performance of the five sample co-operative spinning mills in Tamilnadu.

Findings

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

1. Evaluation of business performance on Value of Production, Value Addition and Sales
2. Profitability Analysis
3. Management of Working Capital
4. Fund flow Analysis

Evaluation of business performance on Value of Production, Value Addition and Sales

Production

Out of five sample CSMs, two CSMs (TSM and PSM) regarded negative trends in production and only three CSMs, namely, RSM, SSM and ASM, achieved significant growth in production during the period under study, though with downward fluctuation. High inter-temporal variations in the value of production show the uncertainty of the market and lack of planning on the part of the management.
Besides this, other reasons for shortfall in production are inadequate supply of raw materials, shortage of power, deficiencies in indigenous infrastructural support, technology, process and equipment design, ageing of equipment, inadequate or improper inspection and maintenance, frequent breakdowns and long duration for attention, lack of employees morale, lack of scientific approach, shortage of skilled and trained manpower, psychological and other environmental factors and inadequate management system.

Value addition

It is found that the performance of five sample CSMs in value addition was far below the lackluster performance of the CSMs in production. At least three CSMs had positive value of “m” in production but only two CSMs could achieve the distinction in value addition. ASM alone posted good performance both in production and value addition.

Sales

Analysis of performance of five sample CSMs shows that only ASM could achieve real progress in production, value addition and sales during the period under review. The remaining four CSMs exhibited decreasing trends as shown by cubic trends and negative growth by the value of “m”. The basic reason for the lackluster performance of these CSMs lies beyond their control. As already pointed out, these CSMs were started primarily for the supply of yarn to handloom weavers. Therefore, recession in handloom industry adversely affected the production and sales in these CSMs.
In Tamilnadu also handloom industry had become emaciated, because of the competition from the textile mills and power looms. The number of co-operative societies have decreased from 1,439 in 1995-96 to 1,382 in 1998-99 and during the period, production of handloom shrank by 23.33 percent from 1,241 lakhs meters to 948 lakhs meters. Especially during 1996-97, handloom industries suffered a very sharp fall in production by 15 percent.

This explains substantial decrease in production in all five sample CSMs in 1996-97 and even ASM, which performed better than other sample CSMs, could not avoid fall in production, because of the recession in demand. Therefore, the rejuvenation of co-operative textile mills will redress the revival of handloom industry which in turn will help the co-operative spinning mills in improving their production and sales. In general, production and sales of the five sample CSMs had fallen during the period under review because of the decrease in demand from the handlooms.

A problem encountered by the CSMs is the sale of yarn during market boom as well as recession. Whenever the yarn market picked up, the CSMs were prevented from selling yarn in the open market but were required to sell the production to the co-optex at the rates fixed by the CHT. However when the market was dull, the co-optex avoided taking yarn from the CSMs and as the result, the CSMs were put in difficulties. Because of the restriction in the sales, the flow of funds of the CSMs was also affected.
Due to uncertainty of market, lack of planning on the part of the management, value of production, value addition and value of sales frequently fluctuated and had fallen during the period under review. Thus the hypothesis that production, value addition and sales in the CSMs would have fallen during the period under review, since handlooms suffer from stagnation and decline has been proved.

**Profitability Analysis**

**Gross profit margin**

Gross profit analysis of the five sample CSMs reveals that none of the CSMs could earn gross profit continuously without failure during the period under review and the variation in gross profit/gross loss could not be easily explained in terms of changes in sales. In almost all the CSMs, gross loss often coincided with significant rise in sales. The reasons for the gross loss and fall in gross profit are the fall in NVAM, increase in labour cost and saleable waste. The reasons reported by the CSMs for the loss are poor sales due to abundance in yarn market, increase in cost of cotton, labour cost, motive power and lower machine productivity due to lack of modernisation. In addition to the above, as said by SITRA, the poor technical efficiency of the CSMs is also the reason for losses. Further SITRA pointed out that the present losses or low profits are not so much due to lack of modernisation as the want of good operational efficiency of the CSMs.
Inadequacy of gross value added by manufacture is found to be the most important cause of gross loss followed by high saleable waste, labour cost and inadequate value of production.

**Net profit margin**

The most important determinant of net profit in a business is the gross profit available for meeting fixed costs. Among the sample CSMs, ASM earned gross profit in seven out of eleven years under review. The remaining 4 CSMs earned gross profit in fewer years incurring gross loss in seven to nine years in the period of study. The gross loss was the most important reason for the lackluster performance in respect of net profit. Some CSMs incurred net loss, despite gross profit. As per the regression analysis of the factors influencing net profit, interest charges is found to be the most pervasive factor influencing profitability in 4 CSMs followed by NVAM in 3 CSMs, salaries in 2 CSMs and contingencies in one CSM. Sound management of interest charges involves full utilisation of fixed capital and optimum turnover of working capital. Improvement of production, GVAM and sales which have been recommended for improvement of gross profit would result the maximisation of utilisation of fixed assets. These CSMs can improve NVAM largely through increase in GVAM and control over depreciation. The CSMs have to regulate the salaries and contingencies on the basis of capacity to pay. Improvement of gross profit would be the major factor contributing to net profit aided by
control over fixed costs like interest charges, depreciation, salaries and contingencies.

Return on investment

Out of five CSMs, RSM and ASM alone have chances of resurrection, while the other three CSMs required extraordinary measures of introducing new capital for discharging the accumulated net loss and sustaining their operation.

Overall finding, in respect of profitability, is that lackluster performance of the five sample CSMs has confirmed the hypotheses that the business operation of these CSMs would not be profitable. The losses have been due to inadequacies in value addition, production and sales as well as high cost of material, labour costs, saleable waste and contingencies. Besides, fall in demand for yarn, owing to fall in the production of handloom, internal factors like selection and purchase of raw materials, wages and monitoring of production influenced the performance of the sample CSMs. The above causes of losses are interrelated and they should be tackled by a package of remedial measures.

In view of the poor performance in gross profit, the sample CSMs could not earn net profit in most of the years. Besides inadequate gross profit and gross loss, other reasons for net loss were high interest charges, salaries, contingencies and inadequate net value added by manufacture.
Management of Working Capital

Analysis of operating cycles of five sample CSMs pinpoint the lines of remedial action. All the five sample CSMs had negative raw material cycles, because of the enormous delay in paying suppliers. The dues of the sample CSMs are owed to the Department of Handloom and Textiles 'which undertakes procurement for the co-operative spinning mills. Huge arrears tarnish the image and reputations of the CSMs and also causes misleading picture of the operating cycles. Therefore, the CSMs should tone up the management of sundry creditors and this will require improvement in sales and collection of dues which alone can augment inflow of cash resources facilitating timely settlement of dues to the sundry creditors. One disturbing finding of the operating cycle is the incredibly short durations of conversion cycle varying between 4 and 15 days. Sound operations of the spinning plants need adequate inventory of work-in-progress in various machines like blow room, carding, draw frame and simplex, in order to ensure full utilisation of the spindles. Optimum duration of conversion cycles will be between 15 and 20 days. In most of the years under review, the sample CSMs had conversion cycle of less than 10 days. It shows that the plants were operated without adequate inventory of work-in-progress and this would result in underutilisation of spindleage with several frames of spindles running without bobbin and feed stock. The sample CSMs should maintain adequate production process and avoid empty running of spindles reducing cost of production and wear and tear.
Storage cycle was quite short in all the sample CSMs, except during 1994-98 in TSM. However, collection cycles require careful monitoring, since timely collection of dues will be essential for sound management of finance in general and for reduction of duration of trade credit in particular. Only when negative raw material cycles are removed through timely repayment of dues, rate of turnover of working capital will facilitate correct assessment of the management of working capital. The hypothesis about management of working capital assumed that the operating cycles of working capital would be very long primarily due to long duration of storage cycles and collection cycles. But the analysis has not proved the hypothesis. Especially storage cycles and collection cycles were reasonably short.

However the compact size of operating cycles and especially negative operating cycles were primarily due to long duration of trade credit and inadequacy of inventory of work-in-progress which must be avoided.

Fund Flow Analysis

Analysis of fund flow of the five sample CSMs has revealed the emaciated financial conditions of the CSMs. Long term sources of these five CSMs were share capital contributed by the Tamilnadu Government and long term loans given by financial institutions. None of the CSMs could receive additional long-term funds from retained earnings. Even though some CSMs earned net profit in some years, such profit only helped to reduce the amount of accumulated loss. Delay in paying
suppliers (increase in sundry creditors) and short term loans were major sources of short term funds.

Long term uses like expansion of capacity and modernisation had a meager place in the uses of funds, because of inability of the CSMs to enhance the sales. Recurring losses, liberal credit accommodation (increase in sundry debtors), increase in stock and repayment of short term loans were the chief uses.

Thus the statement of sources and uses does not show any major feature of sound financial management like regular plough back or reduction of loans, sundry creditors, debtors or stocks. The analysis has proved the hypothesis that the co-operative spinning mills would not be able to generate resources from within and they would completely rely on external sources of funds like additional share capitals and loans.

The analysis of “Z” score shows that none of the 5 sample CSMs had secured “Z” score of 2.63 during the period under review. Among the five sample CSMs, ASM alone improved it’s score during the last four years, thus strengthening the prospects of survival. In all the remaining four CSMs, “Z” score decreased and the score was less than one during the last three years. Especially TSM had score below one during the last 8 years, thus becoming the weakest CSM in the sample. All the sample CSMs, except ASM, are on the brink of bankruptcy.
Thus the hypothesis that all these CSMs would be on the brink of bankruptcy has been proved by the analysis, except in the case of ASM.

Thus fund flow analysis reveals continuous deterioration in the financial health of the sample CSMs, because of fall in sales and recurrent losses. Consequently the CSMs depended on loans for additional funds and most of the inflow of funds were used for increasing stock and repayment of short-term loans. Also Altman’s score analysis showed that four out of five sample CSMs except ASM were on the brink of total collapse.

Suggestions

1. The CSMs have to identify the customers’ demand.
2. They have to conduct marketing survey.
3. The special marketing wing has to be established in each CSM to promote sales.
4. They have to improve the quality of yarn which is an industrial raw material, bought by users, after inspection of quality.
5. Right choice of the raw material consisting of fibre parameter like 2.5 percent span length, strength maturity and tracer content, etc., have to be assessed periodically and right mixing has to be prepared for ensuring better quality.
6. For ensuring quality in the process, periodical maintenance of processing equipments, use of trained and skilled labourers for the purpose would be necessary.
7. Online quality control and raw material quality control have to be ensured for enhancing the marketability of the products of the CSMs.

8. The CSMs are supposed to cater to the yarn requirements of weavers co-operative societies. With the assured segment of market, if the yarn sales fluctuate widely in the CSMs, then it is due to lack of quality. Therefore, the Department of Handloom and Textiles, Government of Tamilnadu, has to undertake a quality drive in the CSMs under study for better marketing.

9. Localisation of procurement of cotton will help to reduce the material cost and saleable waste and enhance production, value addition and sales.

10. The CSMs should introduce the latest technological equipments and do modernisation of machines.

11. The CSMs should try to achieve the SITRA’s standard of capacity utilisation and spindle point production (SPP).

12. Proper inventory control techniques are to be adopted for the optimum investment in inventory including raw material (cotton), work-in-progress and finished stock (yarn) and the CSMs should balance the production process.

13. They should avoid empty running of spindles without bobbins.

14. They should pay the sundry creditors in time, so that it can maintain it’s creditworthiness in the market. It is imperative to pay proper attention to initial planning and execution of the projects.
15. The CSMs should follow a rationalised credit policy towards all kinds of customers, based on their credit standing and at the same time, they should expedite collections.

Scope for further study

The present study encompassed growth in business operations, profitability, management of working capital, fund flow analysis and diagnosis of financial health of the sample CSMs. The exercise enabled the researcher to identify a few more promising areas of CSMs for further research.

Scholars with necessary background can address themselves to material management, management of work-in-progress with special reference to minimisation of wastage and utilisation of capacity in CSMs. Similarly, tailoring of management information systems of CSMs, structure and accountability of executives in CSMs and management of marketing by CSMs, are the other promising areas of CSMs for further research.