ABSTRACT

Introduction

Textile Industry is the largest economic activity in India next only to agriculture. Co-operative spinning mills (CSMs) serve the twin purpose of securing remunerative price for cotton growers and ensuring steady availability of quality yarn to the handloom weavers at a reasonable price. Tamilnadu accounts for 14 out of 126 co-operative spinning mills in the country.

Objectives

The present study aims at
(i) measuring variations in production, value addition and sales;
(ii) estimating profitability of the operations and identifying factors influencing profitability;
(iii) evaluating management of working capital;
(iv) studying the pattern of mobilisation and use of funds; and
(v) predicting the future of the co-operative spinning mills.

Methodology

Concept of Net Value Added by Manufacture has been employed for assessing value additions achieved by the sample mills. Wholesale price indices have been used as deflators for converting values in current prices to values in constant prices, inter-temporal variations in business operations have been measured with the help of cubic equations and linear equations. Profitability analysis includes computation of time value of money. Multiple regression analysis has been used for identifying the factors influencing profit. Operating Cycle Analysis has been used for assessing the working capital management. Pattern of mobilisation and application of funds have been brought out in the form of fund flow analysis. Financial health of the sample CSMs has been predicted in bankruptcy analysis of Altman’s “Z” score.

Findings and recommendations

The findings of the study revealed that value of production, value addition and sales frequently fluctuated due to uncertainty of market and lack of planning on the part of management of the sample CSMs.
None of the five sample CSMs could earn gross profit in each of the eleven years, except one CSM which has made gross profit in two years only. Inadequacy of gross value added by manufacture was found to be the most important cause of gross loss followed by high saleable waste, high labour cost and inadequate value of production.

In view of the poor performance in gross profit, the sample CSMs could not earn net profit in each of the eleven years under review. The most successful CSM in the sample made net profit in five out of eleven years under review and one CSM incurred net loss in each of the eleven 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.

Analysis of the operating cycle of working capital shows huge arrears payable to the suppliers and inadequacy of inventory of work-in-progress. However, storage cycle in most of the CSMs was less than two months. Four out of five CSMs have collection cycles below 30 days and only one mill has collection cycle ranging between 52 and 99 days.

Fund flow analysis reveals continuous deterioration in the financial health of the sample CSMs, because of the falling 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.

Altman’s “Z” score analysis shows that none of the CSMs had required score of 2.63 and in the year 1999-2000, four out of five CSMs had “Z” score below 1.00 while only one CSM had “Z” score of 2.134. Thus four out of five CSMs are on brink of total collapse.

The study offered certain suggestions (i) to enhance value of production, value addition and sales, (ii) to reduce the material cost and saleable waste and thus to earn gross profit and net profit to manage the working capital efficiently, (iii) to mobilise and utilise the funds profitably. The study has also suggested a few area for further research.