CHAPTER VI

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

INTRODUCTION

In the present era of globalisation, liberalisation, cut-throat competition and removal of social inequalities, spinning industries have to be productive and run profitably not only for their own growth and survival but also for the growth of the nation.

No doubt the spinning industry continues to contribute significantly to the overall national economy and industrial production. However, many spinning industry are in the threshold closure stage due to mounting losses and lack of funds for their operation. Therefore the present study was undertaken to study the profitability of selected spinning mills in Coimbatore districts.

Maximising the Profit is the primary objective of every industry. The spinning industry is going through interesting times. And the things that have made these times interesting is the ability of spinning mills to tide over the difficulties in operating profitably.

Due to high operating costs and dependence on raw materials such as raw cotton and yarn is unnaturally enormous the spinning mills should adopt new business strategies like modernisation to reduce cost and increasing the revenue.

The following are the main findings of the study.

FINDINGS

H Score

- In VTX industries shows less than zero in seven years and is in ‘failed’ status. It showed recovery sign for years 2004 onwards and up to 2007. It again turned negative from 2008 onwards. The negative is the highest in the year 2009.
In Bannari Amman Spinning shows less than Zero in four years and is in ‘failed’ Status. It showed recovery sign for years 2003 onwards and up to 2007. It turned negative from 2008 onwards and showed recovery sign in 2011. The negative is the highest in the year 2002.

In Precot Meridian shows less than Zero in three years and is in ‘failed’ Status in those periods. It showed recovery sign from the year 2003 onwards and up to 2007. It turned negative from 2008 onwards and showed recovery sign in 2010. The negative is the highest in the year 2009.

In Ambika Cotton shows less than Zero in three years and is in ‘failed’ Status in those periods. It showed recovery sign from the year 2010 onwards. The negative is the highest in the year 2002.

In Super Spinning shows less than Zero in four years and is in ‘failed’ Status in those periods. It showed recovery sign from the year 2003 to 2007. It turned negative from 2008 to 2010. Again it shows recovery sign from 2011 onwards. The negative is the highest in the year 2009.

In Lambodhara textile shows negative in all the ten years periods. Hence, we can say they are in ‘failed’ Status. It showed recovery sign from the year 2011 onwards. The negative is the highest in the year 2008. The performance of the company is very poor.

In Super Sales shows negative in eight years periods. Hence, we can say they are in ‘failed’ Status in those periods. It showed recovery sign in 2003 and 2004. It turned negative from 2005 to 2011. Among these years the negative is the highest in the year 2009. It reveals unsatisfactory performance of the company.

In Salona Cotspin shows negative in six year periods. Hence, we can say they are in ‘failed’ Status in those periods. It showed recovery sign from the year 2010 onwards. The negative is the highest in the year 2002.
The overall H score of all the mills during the period of the study shows healthiness status. Under this status VTX Industries shows only 3 years successful status and remaining periods shows failed status. The Bannari Amman Spinning shows 4 years successful status and remaining period the healthiness is failed. The Precot Meridian shows 7 years successful status and its healthiness is failed in 3 years. Ambika cotton mills also shows the same level as Precot Meridian. But Lambodhara textiles healthiness is very poor. Similarly a Super Sales industry shows only 2 years successful status but failed in 8 years. Salona Cotspin shows 4 years successful status and remaining periods it failed in healthiness status.

Among the eight mills the average H score reveals that Bannari Amman Spinning stands first followed by Precot Meridian, Super Spinning and Ambika Cotton. Remaining four companies attained failed status on an average towards profitability, efficiency, liquidity and solvency position of the mills are 5 percent, 12 percent, 10 percent and 73 percent respectively.

It observed from CAGR of sales the high rated and low rated companies are ascertained. The top three companies are Bannari Amman Spinning followed by Lambodhara Textiles and Ambika Cotton. The low rated companies are Super Spinning followed by VTX Industries and Precot Meridian. Bannari Amman Spinning mills has the highest co-efficient and it is the least in Super Spinning.

CAGR of EBIT, shows the high rated and low rated companies. The top three companies are Bannari Amman Spinning followed by Ambika Cotton and Super Sales Industries. The low growth rated companies are Super Spinning followed by Precot Meridian and VTX Industries. Bannari Amman Spinning mills has the highest co-efficient and it is the least in Super Spinning. Other companies show almost consistency.

CAGR of Return on Investment (ROI) shows that the top performed and poor performed companies. The top three companies in the ROI are
Lambodhara Textiles, followed by Ambika Cotton and Super Sales Industries. But the three companies ROI growth rate is negative. VTX Industries discloses the highest negative growth rate followed by Salona Cotspin and Precot Meridian. The highest Co-efficient of variation in Bannari Amman Spinning and it is the lowest in Super Spinning Industries.

ANOVA

- In VTX Industries it is observed that there is a significant relationship between dependent variable Return on Assets and Operating, Financial leverage. It indicates the strong positive relationship.

- In Bannari Amman Spinning Mills shows that there is no significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.

- In Precot Meridian it is observed that there is a significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.

- Ambika Cotton shows that there is a significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.

- Super Spinning reveals that there is no significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.

- In Lambodhara Textiles it shows that there is a significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.

- Salona Cotspin shows that there is no significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.
In Super Sales it shows that there is a significant relationship between dependent variable-Return on Assets and Operating, Financial Leverage.

In Overall return on Assets and Leverage Status of all companies. It is observed that the Operating leverage of all the mills except Super sales Industries are negatively contributing to the ROA. Also the Financial leverage of all the mills except Super spinning and Salona Cotspin are negatively contributing to the ROA.

MULTIPLE REGRESSION ANALYSIS

In VTX Industries, it is observed that there is a positive relationship between operating profit and sales, contribution margin and cash return on assets.

The relationship between operating profit and other variables of Bannari Amman Spinning mills ltd., it is observed that there is a positive relationship between operating profit and sales and contribution margin but negative relationship with cash return on assets.

The relationship between operating profit and other variables of Precot Meridian Ltd., there is a positive relationship between operating profit and sales and contribution margin but negative relationship with cash return on assets. Operating profit is negatively contributed to return on assets.

The relationship between operating profit and other variables of Ambika Cotton Ltd., there is a positive relationship between operating profit and sales, contribution margin and cash return on assets.

The relationship between operating profit and other variables of Super Spinning Ltd., there is a positive relationship between operating profit and sales, contribution margin and cash return on assets.

To test the relationship between operating profit and other variables of Lambodhara Textiles Ltd., shows that there is a positive relationship between operating profit and sales but negative relationship with
contribution margin and cash return on assets. Operating profit is negatively contributed to contribution margin and return on assets.

- To test the relationship between operating profit and other variables of Salona Cotspin Ltd., there is a positive relationship between operating profit and sales, contribution margin and cash return on assets.

- The relationship between operating profit and other variables of Super Sales Industries Ltd., it is observed that there is a positive relationship between operating profit and sales, Cash Return on Assets. Whereas, there is a negative relationship with operating profit and contribution margin. Operating profit is negatively contributed to contribution margin.

- Except Lambodhara and Super Sales Industries all other companies have positive relationship with operating profit and total sales. Similarly, except Bannari Amman Spinning, Precot Meridian and Lambodhara Textiles all other companies show a positive relationship with Cash return on Assets and operating profit.

**FACTOR ANALYSIS**

- The variable of Return on Equity, Return on Assets, Return on investment, cash debt coverage ratio, cash return on assets, EBIT/Sales and Contribution Margin ratio are having positive higher scores they are significantly influencing the profitability of VTX Industries.

- Bannari Amman Spinning Mills shows the significant influence of profitability and solvency factors, with the variable of Return on Equity, Return on Assets, Return on investment, cash debt coverage ratio, and cash return on assets.

- In factor analysis of Precot Meridian the variable of Contribution Margin, EBIT/Sales and Return on Assets, cash debt coverage ratio, and cash return on assets have positive higher scores that are significantly influencing the profitability.
The variable of Return on Equity, Return on Assets, Return on investment, cash debt coverage ratio, cash return on assets, EBIT/Sales and Contribution Margin ratio have positive higher scores and they are significantly influencing the profitability of Ambika Cotton.

Profitability of Super Spinning is significantly influenced by the variables of the contribution margin ratio, EBIT/Sales and Return on investment. Similarly, Solvency of the mill is also significantly influenced by the variable of Cash Return on Assets and Cash Debt Coverage ratio.

Profitability and profit contribution of Lambodhara Textiles is significantly influenced by the variables the contribution margin ratio, EBIT/Sales, Return on Equity and Return on investment. Similarly, Solvency of the mill is also significantly influenced by the variable of Cash Return on Assets and Cash Debt Coverage ratio.

Profitability of Salona Cotspin is significantly influenced by the variables the contribution margin ratio, EBIT/Sales and Return on investment. Similarly, Solvency of the mill is also influenced by the variable of Cash Return on Assets and Cash Debt Coverage ratio.

Profitability of Super Sales is significantly influenced by the variables the contribution margin ratio, EBIT/Sales and Return on investment. Similarly, Solvency of the mill is also significantly influenced by the variable of Cash Return on Assets and Cash Debt Coverage ratio.

**TREND ANALYSIS**

In VTX Industries Ltd., it is observed that the model suitable for forecasting operating profit is Linear Trend Model. The Forecasted operating profit of VTX Industries discloses a marginal increase in the next five years.

In Bannari Amman Spinning Mills., it is identified that the model suitable for forecasting operating profit is Linear Trend Model. The Forecasted operating profit of Bannari Amman Spinning Mills., shows high growth in the next five years.
The Exponential Trend model is suitable for forecasting the operating profit for Precot Meridian. The Forecasted figure shows a normal increase in trend of operating profit for the next five years.

The Exponential Trend model is suitable for forecasting the operating profit for Ambika Spinning Mills. The Forecasted figure shows that the increase in trend of operating profit for the next five years is satisfactory.

In trend analysis of Super Spinning identified that the model suitable for forecasting operating profit is Linear Trend Model. The Forecasted operating profit of Super Spinning shows very slow growth for the next five years.

The Quadratic Trend model is suitable for forecasting the operating profit for Lambodhara Textiles. The Forecasted figure shows that growth of operating profit for the next five years is satisfactory.

The Exponential Trend model is suitable for forecasting the operating profit for Salona Cotspin. The Forecasted figure shows a gradual increase in trend of operating profit for the next five years.

The Exponential Trend model is suitable for forecasting the operating profit for Super Sales India Ltd. The Forecasted figure shows a satisfactory growth of operating profit for the next five years.

**SUGGESTIONS**

The financial health of VTX Industries shows a ‘failed’ status for 7 years. It shows the poor status of the spinning mill. Hence the spinning mill should improve its profitability by reducing the overheads.

Bannari Amman Spinning mill is financially unhealthy for 4 years. It reveals the unsatisfactory status of the spinning mills. For improving financial healthiness of spinning mill they should improve its turnover to earn more profit.
➢ Precot Meridian shows a ‘failed’ status for 3 years that reveals the unsatisfactory position of the mill. In future it reduces the overheads by adopting modern technology.

➢ Ambika Cotton is financially not in healthy status for 4 years. It is not good for the spinning mill. For improving financial healthiness of spinning mill, it should improve its profitability by replacing old and worn-out machinery.

➢ The financial health of Super Spinning discloses a ‘failed’ status for 4 years. It should avoid failed status to maintain solvency and liquidity.

➢ Lambodhara Textile shows a very poor status for all the ten years. Financial healthiness of this mill is not up to the mark. Hence the spinning mill should reduce the overheads to improve turnover in the competitive market. It should maintain solvency, liquidity and profitability to survive in the competitive business world.

➢ Super Sales shows a very poor status for 8 years. It is almost similar to Lambodhara textiles. It should avoid failed status to maintain liquidity and solvency.

➢ Salona Cotspin is financially not in healthy status for 6 years. It shows unsatisfactory status of the spinning mill. For improving financial healthiness of spinning mill it should adopt innovative technology to increase the turnover by improve marketing capability to increase profitability.

➢ In overall financial healthiness of the selected companies is not satisfactory status. For improving their financial healthiness as successful, they should replace the old and worn-out machinery to adopt modernisation to reduce cost of production and increase profit and maintain solvency and liquidity.

➢ The low rated companies in CAGR of sales should increase their turnover by improving the primary factors.
➢ In CAGR of EBIT of the low rated companies should improve their profitability by using lower cost of power and labour and lower interest cost etc.

➢ In CAGR of Return On Investment (ROI) of the low rated companies should increase their return or earnings by using minimum necessary level of technology of machines.

➢ Bannari Amman Spinning Mills shows there is a negative relationship between return on assets and operating and financial leverage hence the spinning mill must improve the financial position.

➢ Super Spinning reveals that there is no significant relationship between return on assets and operating and financial leverage. The spinning mill can increase their operating profit by increasing its production sales volume and reduce interest cost on loan.

➢ Salona Cotspin shows that there is no significant relationship between return on assets and operating and financial leverage. Hence the spinning mill can increase the sales by reducing the operating expenses and take required step to reduce more loan capital.

➢ Bannari Amman Spinning mill and Precot Meridian show the negative relationship with cash return on assets and Lambodhara Textiles show a negative relationship with contribution margin and cash return on assets. Similarly Super sales industries also show a negative relationship with operating profit and contribution margin. Negative result companies should increase the operational efficiency.

➢ In trend analysis VTX Industries and Super Spinning Mills show the marginal increase in profit and should concentrate on profitability.

➢ The mills should ensure unnecessary stoppage of ring frames should be avoided to increase machine efficiency.

➢ Roving waste and yarn waste should be minimized to increase productivity and adopt quality control.
➢ Chinese auto toffer for ring frames should be installed for improving labour productivity.

➢ Energy conservation cell must be established to save the energy consumption.

**OTHER SUGGESTIONS**

➢ Using Key Performance Indicators (KPIs) to analyse strengths and weaknesses - e.g. rising costs or falling sales

➢ Regularly reviewing the pricing of the products

➢ Testing the prices of any product the mills review before making the changes permanent

➢ Improving the profitability through the mills best customers - use up-selling, cross selling and diversifying techniques to improve profit margins

➢ Long-term deals with suppliers to negotiate a better price on products

➢ Researching new opportunities in the business sector and identifying where the mills could expand the market by finding out the areas ways to pick up new customers and how they would buy the product

➢ Measuring the operational efficiency regularly and establishing monitoring systems and processes in place – e.g., benchmarking

➢ The Agreement on Textiles and Clothing (ATC) promises abolition of all quota restrictions in international trade in textiles and clothing. This provides tremendous scope for export expansion from developing countries.

➢ TCIDS is a part of the drive to improve infrastructure facilities at potential Textile growth centers and therefore, aims at removing bottlenecks in exports so as to achieve the target.

➢ TCIDS Scheme funds can be utilised for development of infrastructure directly benefiting the spinning and textile units.
Comprehensive analysis of profit performance should be adopted by mills.

Technology Upgradation Fund Scheme (TUFS) which provides for reimbursing 5% interest on the loans/finance raised from designated financial institutions for benchmarked projects of modernisation. IDBI, SIDBI, IFCI have been designed as nodal agencies for large and medium small scale industry and jute industry respectively. This scheme is useful for technology upgradation for mills.

To provide the industry with world-class infrastructure facilities for setting up their textile units, Government has launched the “Scheme for Integrated Textile Parks (SITP)” by merging the ‘Scheme for Apparel Parks for Exports (APE)’ and ‘Textile Centre Infrastructure Development Scheme (TCIDS)’. This scheme is based on Public-Private Partnership (PPP) and envisages engaging of a professional agency for project execution. The Ministry of Textiles (MOT) would implement the Scheme through Special Purpose Vehicles (SPVs).

National Textile Corporation Ltd. (NTC) is the single largest Textile Central Public Sector Enterprise under Ministry of Textiles managing 52 Textile Mills through its 9 Subsidiary Companies spread all over India to strengthen the spinning and textile industries.

The Cotton Corporation of India Ltd (CCI), Mumbai, under the Ministry of Textiles is engaged in commercial trading of cotton. The CCI also undertakes Minimum Support Price Operation (MSP) on behalf of the Government of India.

The Ministry of Textiles is responsible for policy formulation, planning, and development export promotion and trade regulation in respect of the textile sector. This includes all natural and manmade cellulosic fibres that go into the making of textiles, clothing and handicrafts.

Powerloom development and export promotion council, provides some export assistance for
★ Exploration of overseas market.

★ Identification of items with export potential.

★ Market survey and up-to-date market intelligence.

★ Contact with protective buyers to inspire them in mills products.

★ Providing company's profile to overseas buyers and vice-versa.

★ Advice on international marketing.

★ Display of selected product groups.

➢ Cotton Textile Export Promotion Council after the export promotion of cotton fabrics, cotton yarn and cotton made-ups. Its activities include market studies for individual products, circulation of trade enquiries, participation in exhibitions, fairs and seminars at home and abroad, in order to boost exports for economic development.

➢ In order to have a world class infrastructure for textile units as well as facilitate the needs for them to meet international social and environmental standards. This scheme envisages the creation of textile parks in the public and private partnership mode currently 30 parts are in various stages of implementation and 50 more are planned for the next five years.

➢ The government should launch the Technology mission on cotton with the objective of addressing the issue of rising productivity, improving quality and reduction of contamination in cotton.

➢ The cotton industry had a slow down due to an economic recession. To help the spinning mills, soft loans should be provided by the state governments at subsidized rate of interest.

➢ Cotton was removed from essential commodity list in 2008. This resulted in large international cotton traders started accumulating stocks of cotton in India, pushing up prices to unprecedented levels. The incentives given
to cotton exports with retrospective effect and a discount of 5% for bulk buyers fuelled speculation, making way for large international trading houses to corner all the good cotton on arrival and keeping the market artificially high due to high cost of pricing of cotton the working capital requirements of mills went up steeply. The government should take required step to classified the cotton as an essential commodity to avoid foreign traders to enter into the Indian market.

➢ In cotton spinning raw material constituted about 55% to 60% of the sale value. Cotton being an agricultural commodity there will be volatility in prices which results in wide swings in the profitability of the industry. Hence the government should take effective step in the procurement of cotton. CCI should make arrangement to sell the cotton directly to the mills by the farmers. This task benefits the farmers and the mills to improve profitability.

CONCLUSION

Spinning and textile sector is the oldest and the largest manufacturing sector in India. At present there is a large demand for cotton yarn in the world market much of which is currently being supplied by major cotton producing countries such as India and Pakistan. To meet the global competition, important technological developments are aimed mainly at raising productivity, improving quality and control and making manufacturing more environmental friendly and eco friendly to develop innovative products that will gain more demand for the products to improve profitability for the economic development of the country.

The analysis of profitability plays a significant role in judging the financial healthiness of the spinning mills. Government policies and availability of incentive package comprising investment incentives, fiscal incentives, and the availability of export finance at concessional interest rate efficient infrastructure, skilled labour and moderate demand growth are reviewed to strengthen the spinning mills to improve financial soundness by increasing profitability. The mills with stronger capital structure, efficient
cotton procurement, and diversified cotton mix and favourable economies of scale are better positioned to tide over the volatility in the market and increase the earnings. To sustain a healthy balance sheet the gradual improvement in the spread between yarn and cotton price and optimum capacity utilization will be critical factors for cotton spinning mills from the short to medium term.

The major spinning mills have to take all the efforts need to stabilize their earnings. Yet there are industries whose performance is comparatively better than the other industries in their earnings. Among them Bannari Amman Spinning mills ranks first followed by Precot Meridian Ltd., Super Spinning Mills Ltd., Ambika Cotton Mills Ltd., Salona Cotspin Ltd., VTX Industries Ltd., Super Sales India Ltd., and Lambodhara Textiles Ltd., ranks last.