CHAPTER - II

SELECT REVIEW OF LITERATURE
AND METHODOLOGY
CHAPTER-II

SELECT REVIEW OF LITERATURE AND METHODOLOGY

A review of literature helps the researcher to have first hand knowledge about the parallel work done by others. This enables one to fix the title, objectives and methodology. This part gives the brief description of the studies conducted by various individuals, committees and organisations.

2.1 IMPORTANT REVIEWS

As was conducted by World Bank in 1975\(^1\), to analyze the position of the Indian textile industry. The study observes that even on the most profitable business units the plough back rates were very low, compare to other courtiers. It further states that most part of the profits were diverted to other industries instead of plough back. The position of the Indian Textile Mills, in the words of World Banks was correctly pointed out as “Industrial slum squalid poorly lit congested, with new and modern equipment often being integrated with the old. So that, the productivity, not surprisingly, remains unchanged.

In 1984\(^2\), under the chairmanship of the Secretary Department of Textiles, Government of India appointed a high powered committee to look into the sickness position of the Textile Industry. The committee in its report,
stated that though the units were economically viable, the majority of the units had become sick due to: (i) mismanagement (ii) lack of professional management (iii) loss of confidence by the financial institutions. Further the study reported that many of the years under review (1965 and 1979) the industry earned more than 10 per cent only in one year, and in the rest of the years, the returns gained between 1.14 per cent and 3.53 per cent. The study also revealed that out of the analysis of the financial statement of 200 units, for the years between 1978 and 1984, the average annual operating profits were about 5.1 per cent only in three occasions and in the rest of the years it was less than 1 per cent.

Sri C.P. Chandrasekhar (1984) in his study ‘The Investment Pattern of the Textile Industry in India’ observed that the investment at constant price and increased by 9 per cent annually till 1967, but the same had a steady decline after 1967 and during 1970s the rate had turned negative. This declining rate of growth, even the negative, aspects were reflected in the slow rate of technical change in the industry. He, further, pointed out that the index number of the agricultural product prices had risen by 124 per cent in 1976-77 against 100 per cent in 1965-66, whereas the industrial prices were advanced even more i.e. 130.2 per cent. But this increase was not matched by an
equivalent increase in the income of the low income groups, which constitute a vast majority of the country's population. This is reflected in the skewed pattern of textile consumption i.e. about 30 per cent of the population could afford for about 1 metre of cloth only per annum. 40 per cent for nine metres and the remaining 29 metres per annum.

The Commerce Research Bureau,\textsuperscript{4} in its study conducted in 1986 has analysed the various reasons for the sickness of the Indian Textile Industry. They stated that due to the power shortage resulting under utilization of plant capacity was the main reason for the sickness of the industry in addition to the demand recession.

Mr. Satish Kumar Modi (1986)\textsuperscript{5} observed that the Indian Textile Industry be devilled but out-dated technology rising new material costs, and shortage of funds for expansion/ modernization has to extend with another mince, i.e. large scale smuggling of synthetic textiles and yarns into country. The smuggling of these items which had assumed alarming proportions had proved to be determent of the indigenous industry and the government exchequer.
Misra studied the problem of working capital in six selected Indian public enterprises. The period of study covered was from 1960-61 to 1967-68. The major findings of the study are: The study was mainly based on financial ratio analysis.

a. The public enterprises never gave due regard to efficient utilisation of working capital, which remains one of the basic factors for running an enterprise with adequate profits.

b. Inventory management poses a challenging problem to public sector enterprises in India, in the sphere of working capital. The major problem in it, being the overstocking of inventory especially of 'stores' and 'spares'.

c. The inventory accumulation caused due to improper planning of working capital, occurred due to internal as well as external causes.

d. The major share in the receivable component of working capital in all the public enterprises was taken by loan and advances, as against the minimum planned investment. This was caused due to improper management of accounts receivable.
e. In all the selected public enterprises the size of cash never showed a declining trend with regard to the growth in the sales turnover as normally expected.

Yasaswy\(^7\) in his study on working capital management in the Indian paper industry, took a representative sample of 19 public limited companies which are engaged in the manufacture of paper and are listed on the Bombay Stock Exchange have been considered. The financial data were collected from the official directory of the Bombay Stock Exchange. Besides, primary data were also collected. The period of study was for 10 years i.e., from 1964 to 1974.

This study is based on ratio analysis. The summary of the analysis is as follows:

1. The current ratio was never satisfactory in the select industries in the 10 year period, commencing from 1964. It was always far from the ideal standard of 2:1. But the ratio has been steadily hovering around.

2. Regarding the composition of current assets the following were the major findings:

   a. Total current assets and sales showed a similar rate of growth during the period of study. Therefore, the researcher has concluded that the
industry was able to maintain a reasonable parity between current assets and sales growth, showing that the industry was able to generate sufficient working capital.

b. Since in the initial years, current assets were not in a congenial condition. It was necessary to increase the involvement in current assets in the same degree as the increase in sales. Hence, it was suggested to increase the availability of working capital.

c. Marketable securities though showed an increasing trend, proportion to current assets was more. As current assets being the first line of defense in the time of unforeseen financial difficulty was weak, the industry was not able to possess sufficient marketable securities, which form the second line of defence.

3. In the case of selected paper industry, the quick ratio was also depressing.

4. The ratio of cash to current assets showed that there existed lower cash balance with the industry. This tendency, as inferred by the researcher, is that though the industry was expanding its sales quite rapidly, it could successfully manage its affairs with a relatively low cash balance.
5. The ratio of cash turnover, to sales suggests that cash balance in terms of sales requirement was very high, which in turn suggests that there remained a scope for improvement by bringing down the cash balance.

6. The average collection period was depicting a considerable lag. Therefore the researcher has suggested that the industry should plan to expedite the collections from the customers so that its working capital position may be improved.

7. Cost of goods sold to average stock ratio showed considerable fluctuations. The reason cited was that it was caused due to irregular supply of raw materials.

8. While the working capital to sales ratio analysis was made it showed that the paper industry operated on a negative working capital from 1964 to 1969. The researcher has suggested that such situations should be taken care of and as far as possible stability should be maintained.

The researcher has suggested the following measures to improve the working capital position in the paper industry.

a. The average collection period should be brought down from 51 days to 2 days.
b. The average cash balance may be further brought down to improve the cash turn over ratio.

c. Steps should be taken to increase current assets to a higher levels.

Agarwal in his study on the "Management of Working Capital" has examined the industry practice in working capital management in ten industry groups and has evaluated the management in ten industry groups has evaluated the management performance in this regard. The period covered by the study extends over 11 years from 1966-67 to 1976-77. He came to the conclusion that the majority of industries have failed to plan their working capital requirements properly. They have not been able to control liquid resources effectively. The overall management of cash is not efficient. Most of the executives do not favour investment in marketable securities. They consider it a speculative activity not meant for manufacturers. The majority of industries have a lax collection policy. The actual collection period exceeds the average credit period in all the industries. Almost all the industries have overstocking, particularly of raw materials. In most of the cases, it is deliberate. All the this clearly shows that there exists ample scope for the improvement in the management of working capital.
Khandelwal in his study on the working capital management in small scale industries, with 40 units as the sample of study, during the period 1970-75 to 1978-80 in Jodhpur Industrial Estate came to the following major findings:

a. The selected units subscribed to gross working capital concept and considered current liabilities a source of working finance.

b. Nearly 75% of the selected units were aware of determining the working capital requirements.

c. The element of risk in the selected units was found to be very high due to poor margin of safety.

d. The percentage of inventory to working capital has been found in excess of normal limits of 75 per cent. Moreover, the selected units were also found to have a high portion of working capital blocked in receivables. Further, the percentage of cash to working capital has been found to be only 6.3 which was lower than that of Rajasthan average of 13.2.

e. The selected units were found having current ratio much below the standard and that too with a declining trend except in the selected engineering units.
Suganthi,\textsuperscript{10} in her \textquote{Analysis of working capital management a comparative study of Lakshmi Mills and premier Mills} in Coimbatore district, states that in case of working capital management, it is a continuous task of managing the composition of current assets and financing them. Therefore, the management of working capital becomes a challenging and dynamic job, particularly in the corporate sector. She is of the opinion that in a country like India, working capital management has a greater significance in view of several constraints. In the field of cash management the options open to an Indian company to invest its surplus cash are far too limited compared to a company in U.K. or U.S.A. Moreover, the prevailing condition of our economy necessitates a company to buy and store the essential raw materials to achieve uninterrupted production, which adds up the cost of production. Besides, the management of receivables poses problems in the Indian context, where credit transactions play a crucial role. Thus, the present condition requires that companies' practice greater financial discipline. At this juncture, the working capital management assumes added significance for companies in India.

Pradhan,\textsuperscript{11} in his study of working capital management in the context of nine selected public enterprises of Nepal, laid emphasis on the frequently
occurring problem to determine the short run liquidity position of an enterprise.

For the purpose of the study, the necessary data on working capital and related variables were collected for the period 1973-1982.

The major findings of the study were as follows:

a. Most of the selected enterprises have been achieving a trade off between risk and return, thereby following neither an aggressive financing mix approach, which is quite risky leading to high profitability and low liquidity, nor a conservative approach of financing mix, which is less risky leading to low profitability and high liquidity.

b. Almost all the selected enterprises for the study showed the positive net working capital. There also existed the signs of increasing net working capital, which is attributed to inflation as the growth in net working capital at deflated price has been much lower.

c. The low level of current and quick ratios can be considered good only if the enterprises can generate cash flows sufficient to pay their current debts.
d. The regression results also show that the levels of working capital and its components an enterprise desires to hold, depend not only on sales but on holding cost also.

e. The Nepalese manufacturing public enterprises have, on an average, half of their total assets in the form of current assets.

Singh and others in their study with the aim to analyze the different aspects of working capital management in the F.C.I (Fertilizer Corporation of Indian Ltd) and its daughter units compared with that of Gujarat State Fertilizer Company (G.S.F.C) Limited during the period from 1978-79 to 1982-83 came to the following conclusions and suggestions.

1. Inventory Management

The management of inventory poses a challenging task to the FCI and its daughter units. This was on account of unduly high overstocking that existed in the segment of working capital. He also found that the fund tied-up in inventory has exceeded the amount of working capital itself during the period of study.

In his study, he found that overstocking existed in each component of inventory, and the overstocking has been the highest in the stores and spares component.
2. Cash Management

The balance of cash has been found to be much lower in relation to the operational requirements of the FCI and its daughter units. Moreover, the liquidity and solvency position, as indicated by the current and quick ratio, has not been sound on account of inadequacy of cash and liquid balances. The working capital suffered from under investment of cash. Idle balances of cash existed in the form of cash in transit and cash in current account. Further, the undertaking has failed to make sincere efforts to regularize its cash flows determine optimum cash balance, maximize the availability of cash and to invest excess founds in short-term securities and short-term deposits.

3. Receivables Management

This study has found that the receivables which form the second largest segment of working capital have not been managed satisfactorily. The quantum of receivables has been excessive and their turnover very low. And the units understudy did not make enough effort for expeditious collection of outstandings. It was witnessed that a high percentage of receivables remained invested in loans and advances, contrary to the accepted policy of the undertakings that minimum fund has to be kept in these assets.
4. **Working Finance**

Relatively low working finance has been noticed, in the units under study, on account of rapid increase of the current liabilities. This was in comparison to GSFC and 'running concerns' of the Central Government.

The slow transmutation of working finance reflected through disproportionately high percentage of inventory and receivables makes it explicit that the quantum of current assets (gross working capital) has been, quite high in these undertakings as pointed out by the study.

The units studied, utilised depreciation reserve are capital funds for meeting the urgent needs of working finance which is against the policy of the government. This was caused, as pointed out by the study, on account of inadequate cash credit and short-term loans provided by financial institutions and the government respectively.

Besides, it was noted that the profitability which prepares an internal base for financing working capital was very low in these undertakings.

Prakash\(^{13}\) in his study of "Impact of Financial Factors on productivity in public Enterprises" (public corporations and government companies)
appertaining to the centre (Government of India) during the period 1975-80 he
came to the following conclusions:

Among all the factors studied, he has found that the impact of financial
factors, such as over optimum fixed investment (typified by extremely low
capacity utilization in some public enterprises) on productivity, has been quite
adverse. To some extent, underutilization of operating capacity has resulted
from lack of synchronization within the public sector itself.

Over investment in inventories has been a major constraint with many
public enterprises endeavoring to attain responsibly high standards of capital
productivity. There appears to be considerable scope for improving the
productivity of capital input by curbing the tendency towards over-stocking in
the public sector. Better management of receivables, too, might lead to an
estimated increase of some 10% in the operating profits of certain public
enterprises. The carrying cost of excess stock (raw materials of semi-finished
stuff or finished goods) may easily turn out to be 30% in the form of interest,
storage etc., besides the hazards of obsolescence and quality deterioration.
Finally, the researcher has stated that this leads to mismanaged productivity
growth.
Sharma in his study examined the practice prevailing in the management of working capital in the textile industry of private corporate sector in Rajasthan, covering a five year period from 1979-80 to 1983-84. He came to the following conclusions:

a. Most of the Mills covered under this study have failed to plan their working capital requirements, which has frequently led them to either excess or inadequacy of working capital.

b. Only in the recent past these mills have started giving due consideration for working capital management. Scientific estimates of various components of working capital is done instead of depending on intuition and rule of thumb.

c. In most of the mills covered, the debtors were more than 6 months old and some of them were considered to be doubtful.

d. The textile mills should reduce investment in inventories by effectively controlling variation in lead time and carefully planning the ordering schedules.

e. Investment in stores and spares in most of the mills studied is higher.
f. Most of the mills covered have a higher share of bank credit in their total working capital, requirements and lower share of internal long term source, showing a growing dependence on commercial banks for their working capital finance.

Nag S.P. (1970) has observed that for an economy characterized by chronic shortage of capital, the significance of the fact that greater utilization of a plants capacity would lead to a higher rate of profit and a lower capital output ratio provided its operating cost per unit of output rises if at all less than proportionately. He also has the opinion that mill owners: labour and the government are the main persons responsible for the under utilization of looms and other machines in the textile industry.

Mehta Suresh (1984) in his study stated that the restructuring of the textile industry is possible only if the government fiscal policies on excise, import duties, taxation, financing and interest rates are modified. The study also suggests that the restructuring of the textile industry should depend on the fact with which the government is able to balance differing interests of various sectors of the industry, whether they are from the organised sector, or otherwise, privately owned or nationalized or cooperative units.
The Ahemadabad Textile Industry's Research Association (1985)\textsuperscript{17} has observed that income is the single most important determinant of textile consumption expenditure. International trade in textile is becoming increasingly competitive and India holds competitive advantages in yarn and cloth manufacture. The study suggests a greater attention to machinery maintenance and a commitment to extract a best out of installed technology by way of quality and productivity.

Gradie, A.R. (1985)\textsuperscript{18} in his study has observed that the modernization gap is large due to poor profitability of the mills which in its turn is a part of a vicious circle of poor profits less expenditure on machines.

He suggests through his study that detailed discussions and dialogues will have to take place within and between the management and labour for crystallizing the action plans such as achieving an adequate level of profitability for survival and growth of the industry.

Kalyanaraman, P (1985)\textsuperscript{19} has stated that the National Textile Corporation (NTC) which has been in the red ever since its inception has managed to reduce the losses by Rs. 5.79 crores in April-June 1985. This was
possible due to reduction in cotton prices, better management, product
development reduction of over manning and improved work culture.

Tarachandani I. N (1986)\textsuperscript{20} emphasizes that the transfer of the
production of controlled cloth to the handloom sector and the policy would
provide jobs to an additional one million persons in the handloom sector. He
also suggests that the excise duty reduction should provide relief to the mill
sector in a great way.

The South Indian Textile Research Association (1986)\textsuperscript{21} in its study
pointed out that exports in the textile sector have increased to a record level of
Rs. 2,599.34 crores. This, according to the study, is an all time high in textile
exports with export earnings exceeding the target by Rs. 342.34 crores. The
study also found that the cost of production of yearn in the count range 10 to
20s would be lower in the small scale sector by about 5 per cent compared to
organised sector. The study also has found out that the cotton fabrics would be
costlier by about 25 per cent as compared to the mill made fabrics due to very
low productivity.

The Southern India Mills, Association (1978)\textsuperscript{22} has pointed out that the
productive capacity in the decentralized sector, the diminishment of demand for
mill made cloth, large scale smuggling of manmade fibres and yarn. Irrational excise tax structure on cotton and hand-made textiles large scale piracy of mill names are some of the problems of the textile industry.

The association also pointed out that the productive capacity between the mills vary due to the level of modernization, efficiency of labour, incentives provided by the management and amount of salary paid to the workers.

Bardia in his study on working capital management in iron and steel industry, examined that inventory occupied a major share in the current assets of the industry. The analysis of Sundry debtors shows that its absolute figure continuously moved to rise. In addition to that he pointed out the proportion of debtors considered doubtful was much higher in the iron and steel industry and he commented that this was due to inefficient management of receivables and sickness in collection efforts. He examined that in the iron steel industry the liquidity position is poor. Financially, he suggested that in connection with inventories the industry should make every efforts to reduce its level of inventories to reasonable extent and also have strict control over inventories so as to improve its liquidity and profitability. With regard to cash, he suggested
that the industry should centralise the administration of each funds and establish a standard optimum cash balance.

Khan\textsuperscript{24} has undertaken the study “working capital analysis” with the objective of analyzing and evaluating the performance of the type industry in India. He examined that solvency and liquidity was not satisfactory in more companies under study. And he suggested that solvency position should be improved by increasing the current assets.

Mohan Reddy\textsuperscript{25} made an attempt in his study “Management of working capital” to examine various issues of working capital management practices in respect of certain selected large scale manufacturing public limited companies under private sector, working in the state of Andhra Pradesh.

The study reveals that investment in current assets was more than that of fixed assets in the sample units, inventory formed the major chunk of current assets of all the sample units, actual liquidity and solvency position of sample units was not satisfactory, majority of the sample units have carried on with less balance sheet working capital than cash working capital actually required. He suggested that either current liability is to be reduced or quick
asset position is to be improved to strengthen the liquidity position of the selected units.

Shashikala\textsuperscript{26} evaluated working capital management, to compare the various aspects of working capital management in the public sector units with their counter parts in the private sector to critically analyze the management of different components of working capital viz., inventory, receivable and cash, to study the relative importance of different sources of financing working capital and its utilization, so as to comment on the liquidity position of the select units and assess its contribution to profitability, to assess the problems of working capital from the view point of management, to suggested feasible ways and means to overcome the problems in the management of working capital, can contribute to improve profitability of the mills.

Sathyanarayana Raju\textsuperscript{27} made an attempt to study the development of paper industry in Andhra Pradesh. He concluded that paper industry in Andhra Pradesh is fairly and equally distributed in all the three regions of the state. The inter unit wage differentials are discernible. The credit squeeze imposed by the Reserve Bank of India had its own adverse impact on procurement of working capital of the paper mills in the state, particularly the mini paper mills. The problem of pollution arising on account of discharge of effluents
into the canals and rivers flowing by the side of paper mills is also turning out to be a formidable problem and so the paper mills are threatened with facing dire consequences of even closure. There is a gradual depletion of the forest based raw materials, bamboo and hardwood. The industrial relations scene in the paper industry in Andhra Pradesh can be said to be fairly smooth and peaceful. Some of the units, particularly among those, which are newly set up are facing problems of non-availability of qualified and experienced technical expert to man their special equipment, plant and machinery to produce special varieties. The cost of production of the paper industry in the state is mounting up from year to year, as is the case with any other industry anywhere in our country. The major mills do not have any problems of competition. But the mini paper mills are, of late, entering in area of competition. There is also a remarkable diversification of product lines in a paper industry in the state. The paper mills should be allowed to take up plantation programme by entering into long term leases of forest lands. There should be close interaction between paper industry and farmers who resort to from forestry, as had been the case with sugar mills and cane growers. In future, licenses should be granted to integrated sugar and paper mills.
Subba Rao in his study emphasized the financial problems of paper industry. Those problems have to be sorted out immediately so that the paper mills once again can be brought back to the right track. To facilitate the steady progress and prosperity of the small paper mills, their finance should be managed effectively and efficiently. The mills should undertake necessary measures for restructuring their financial viability. The excessive dependence of the mill on external sources, that too on borrowed funds, is suicidal. The finance of the mills should be reorganised suitably. To accomplish this task, either a part of the borrowed funds should be repaid or be converted into equity. The share holders who invested in the small paper mills have been the worst sufferers for the last one and half decades. Internal generation of funds is tied up with the profitability performance of the mill. In financing expansion programmes should use only equity capital, instead of resorting to long term loans from financial institutions as the existing debts have already been out of proportion. In order to eschew the financing of fixed assets by short term funds primary through equity funds. Small paper mills though in many cases headed by technocrats are not able to afford to hire on in house research and development or establish sophisticated equipment in their mills. There is an urgent need to develop a technically feasible and economically viable chemical recovery system for small paper mills to prevent wastage of
chemicals and to arrest wide spread pollution. Fixed assets represent the major investment in small paper industry and it exceeded the current assets investment. The overall profit performance in terms of return on investment (ROI) of the small paper industry was totally uncomfortable and it belied the hopes and expectations of all groups of people associated with the industry.

Balakrishnan in his study analyzed the marketing trends in India for pollution control and environmental management in the pulp and paper mills industry in India, and out lined potential business opportunities for US firms offering environmental technologies, products and services in India. The study revealed that the industry was caught in a vicious down cycle in 1997 that had rendered operations unviable. Most of the paper producers had reported substantial reduction in profits and, in some cases, even losses. However, the per capital consumption of paper in India is one of the lowest in the world and is set to grow rapidly with the anticipated growth in the economy. This study enumerated the major pollution control and environmental management problems being faced by the pulp and paper industry are:

- The treatment of black liquor in the effluent color removal from the effluent.
High percentage of oxygenated halogens in the effluent due to chlorine bleaching.

High biological and chemical oxygen demand of the effluent contamination due to fine fibers in the effluent.

Fugitive sulfide emissions from the pulping section and emission of volatile organic compounds; and

Low boiler efficiencies in the pulping as well as paper machine sections.

He suggested, it is important, in India, to have knowledgeable and reliable local contacts to identify growing opportunities and to navigate through the complex bidding procedure especially in the large scale state run pulp and paper mills. The most effective way to enter the market is to work jointly with an appropriate Indian firm in the field of technical / marketing agreements. Such partnership can be initially started on a project to project basis, and later develop into a regular joint venture. This study also concluded the most medium and long terms financing is provided by a handful of development financial institutions, such as the industrial credit and investment corporation of India (ICICI), the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the industrial
reconstruction Bank of India (IRBI), The Small Industries Development Bank of India (SIDBI). This study indicated that due to liberalization policies initiated by the Narasimha Rao government in 1991 have been carried through by successive governments over the years resulting in the increased globalization and the intervening of Indian industry with overseas markets, resulted no expansion in the pulp and paper industry and low capacity utilization etc.

5. NEED FOR THE PRESENT STUDY

Finance is the life blood of any industrial system which lubricates, develops accelerates the mobility and growth, without which business organisation becomes nothing. Mobilisation (acquisition), utilisation and distribution of finance is a crucial function and its performance influences the organisation to prosper. Financial Management is directly concerned with the line of business, size of firm, type of equipment used, extent of debt, liquidity etc. which in turn determines the size of the profitability. Therefore, financial management assumes a greater significance in any industry.

In India, plethora of human and natural resources are available in plenty but the capital resources are highly restricted. A thorough understanding of financial management is necessary to utilise the limited mobilised capital
resources efficiently and effectively. It is difficult to evolve norms for sound and efficient management practices in various organisations without any factual information. Hence, there is a need to study financial management practices in various industries in India. But the present study covers the financial performance of select cotton textile mills in Tamilnadu of India.

6. STATEMENT OF THE PROBLEM

Cotton textile industry in India has been facing many odds and the survival of the industry itself is in danger. Due to the continued uneconomic working, the industry's financial viability has been deplorably shattered. Many mills in the industry have already reached a stage of financial prostration with complete exhaustion of reserves and surplus and their liquidity position has become most precarious. Many mills, particularly in and around Mumbai, have already closed their shutters and some are ready to follow. Due to low profitability, the industry has failed to retain more profits, and consequently been forced to depend more on external sources, which in turn is leading to imbalanced capital structure. The failure of the industry in the maintenance of liquidity is the direct result of imbalanced capital structure, and inadequate liquidity in turn is leading to low profitability. Since the industry has been incurring losses the payment of dividend, interest and the repayment of
principal amounts is becoming a big problem. Thus, the cotton textile industry is caught in the vicious circle. To discharge the complicated duties, the financial manager must know how to solve the above said problems that affect the profitability of the mill, how working capital is to be managed and how profits are to be increased. These and other related questions about financial management arise in cotton textile mills also. The above said questions call for a scientific examination in select cotton textile mills in India. It is in this context an attempt has been made in this study to analyse the financial performance of cotton textile industry and suggest some remedial measures for alleviating the same.

7. OBJECTIVES OF THE STUDY

The study is basically confined to look into the matter of financial performance of the cotton textile mills in Tamilnadu by using financial tools and to refer the suggestions for the betterment of the mills. Following are some of the specific objectives of the study:

1. To study the origin, progress and prosperity of cotton textile mills in India, in general and Tamilnadu, in particular.

2. To analyse the funds management in select cotton textile mills.
3. To examine the impact of working capital performance on profitability in select mills.

4. To analyse the financial performance of cotton textile mills by developing the discriminant function.

8. SCOPE AND COVERAGE

The present study is confined to twelve cotton textile mills only in Tamil Nadu state in India. They are:


2. Sri Narendra Raja Mills Ltd., Palladam, Tamilnadu.

3. The Palani Andavar Mills Ltd., Udumalpet, Tamilnadu.


5. Southern Textile Ltd., Kannampalayam, Tamilnadu.


7. Precot Mills Ltd., Coimbatore, Tamilnadu


The period of study

The study period covers 10 Accounting years of operation of select cotton textile mills in Tamilnadu i.e. from 1991-92 to 2000-2001.

9. DATA BASE

The data for the study have been primarily obtained from the annual reports of the select cotton textile mills. Data are also drawn from the reports prepared and published by the South Indian Textiles Research Associates, South Indian Mills Association, Bombay Institute of Textile Research Association, the RBI Bulletins, the Annual Survey of Industries and the Kothari's Industrial Directory of India etc. In addition to aforesaid, various journals and periodicals such as Hand Book of Statistics on Cotton Textile Industry published by 'The Indian Cotton Mills Association', Bombay have been referred to.

10. TOOLS OF ANALYSIS

The data drawn from various sources have been analysed with the help of financial and statistical tools such as: Financial ratios, statement of changes in working capital, averages, correlation, multiple linear regression, variance test, discriminant analysis, trend analysis and Graphs and Diagrams are presented to illuminate the facts and figures.
11. LIMITATIONS

The present study is confined to 12 select cotton textile mills in Tamilnadu, which are purposefully chosen, because of proximity and convenience of the researcher. To match with the meager financial resources and time, the present research is conducted on the basis of time series data only.

12. CHAPTER DESIGN

The study is organised into five chapters. The first chapter deals with the growth and performance of cotton textile industry in India emphasizing on Tamilnadu. The review of literature, objectives, data base, tools of analysis and scope and limitations of the study is presented in second chapter. The analysis of the sources of working capital, changes in working capital and sources and uses of funds of cotton textile mills have been presented in the third chapter. The Fourth chapter deals with the evolution of the impact of working capital performance on profitability. Discriminant analysis is used with the help of financial ratios to classify the cotton textile mills into "poor performers" and "good performers" in the fifth chapter. The last chapter summarises the results of the study.
REFERENCES


2. Ibid., p. 71.

3. Ibid., p. 82.


