CHAPTER-VII

SUMMARY OF FINDINGS AND SUGGESTIONS

7.1 Findings

The present study was undertaken in order to evaluate the financial performance of the sample handloom co-operative societies operating in Karur district. The sample societies produce home textile items like ribbed mats, runners and other furnishing materials.

The study has evaluated the financial performance of the handloom co-operative societies in the context of globalised market environment and the findings are presented as below:

7.1.1 Production and Sales

Group - I societies which are known for their economies of scale of operations, witnessed robust growth rates in the value of production and sales as measured in linear, polynomial models and CGRs. These societies have increased their operational efficiencies both in mobilization of resources and inputs and in identifying right avenues of marketing when opportunities opened up through global marketing for home textiles. They have to sustain their growth in the years to come.
Group - 11 societies which have recorded moderate scale of operations, have shown positive and high growth rates in terms of value of production and value of sales during the study period particularly after 2003-04. These societies have adequate opportunities for enlarging their business like the societies of group - 1. Sustained efforts in identifying right marketing avenues and in expanding operations are the major strategies needed by these societies.

Among group - III societies, which have posted low scale of operations (sales values less than Rs.50.00 lakhs) during the study period, two societies namely Perichipalayam and Thogamalai Padmasala societies have recorded moderate performance in terms of value of production and value of sales with low positive growth rates in linear, polynomial models and CGRs. But Rajendram Sachidanantha society exhibited declining trends and negative CGRs percentages in production and sales. Hence, these societies felt the effect of low scale of operations and posted either low growth rates or negative growth rates. They have to enlarge their scale of operations through expansion of production facilities and improving their operational efficiencies. Further these societies must work for establishing networking with the buyer agencies to support their operations. These measures will help them to put themselves on high growth trajectory as achieved by group - 1 and group -11 societies in the district.

Thus, the first hypothesis stating that all the handloom societies will show declining trend has been disproved in respect of group - I and group II societies that have respectively posted robust and reasonable growth. And the hypothesis
was partly proved by group - HI societies which have shown very moderate growth rates or declining rates as recorded by Rajendram Sachidanantha society,

7.1.2 Profitability Analysis

In terms of gross profit percentages all societies in group - I, group - II and group - III categories have equally performed well and economies of scale of operations do not have any major impact on gross profit.

With regard to net profit percentages, group - I societies have recorded net profits in all the years during the study period. And higher scale of operations helped them to sustain reasonably good net profit percentages. Whereas in group - II societies, the net profit percentages were highly influenced by the value of sales. Societies incurred losses when the values of sales were inadequate. They have to enhance their sales for improving profitability percentages. Group - III societies suffered net losses in most of the years due to low volume of sales coupled with higher interest and establishment charges. Adequate controls in prime costs and establishment charges are needed by these societies to improve their fortunes.

Considering the financial health analysis through Altman's 'Z' score model of the societies, group - I societies have managed themselves successfully to secure high 'Z' scores exceeding '2.63' and the sound financial status was due to higher sales volumes, better liquidity and earnings in all the years. Group - II
societies met with mixed trends as two societies were just above the score of 2.63 indicating their ability to achieve favourable healthy ‘Z’ scores through enhancing sales volumes and sustained earnings. But Sri Mariamman society should take adequate efforts in enlarging sales and earnings. Group - III societies with low scale of operations could get low ‘Z’ scores particularly two societies namely Rajendram Sachidananthan and Thogamalai Padmasala societies were near bankruptcy levels with low ‘Z’ scores indicating their weak financial status and related threats. But Perichipalayam society managed to score better even with lesser sales volumes.

Thus, the hypothesis stating that due to globalization and competitive forces, the financial health of the handloom societies will be weak has been disproved in respect of group - I and group - II societies while partly proved by group - III societies.

7.1.3 Fund Flow Analysis

All the three societies in group - I category generated major part of its financial resources from its operations (net profits and reserves) and used the funds in current assets for further growth of the operations. The strategy yielded positive results in maximizing the returns.

Among Group - II societies which have shown moderate scale of operations two of them have managed resources quite effectively. Kattipalayam society and Mahakavi Bharathiyar society generated substantial funds from its
operations instead of depending on external borrowings. In respect of uses, they spent in expanding the current assets to support in the growth of operations.

But Sri Mariamman society mobilized major part of its resources from sundry creditors and loans (cash-credit) from co-operative banks for seven years. During last three years only, funds from operations supported the society in a major way. In respect of use of funds expansion in sundry debtors and writing off losses occupied a major share while reduction in sundry creditors was another major use.

Societies in Group - III suffered from low scale of operations. They were dependant on external sources of funds to sustain their operations as they could not generate funds from operations due to inadequate or declining sales.

In respect of uses of funds, discharging of current liabilities namely working capital loans and sundry creditors took a major share in Perichipalayam society. And Thogamalai Padmasala society used funds for expansion of sundry debtors and to write off losses incurred in eight years. All the three societies felt the impact of Sow scale of operations and were caught in the vicious circle of raising loans and repayment in the succeeding years. Efforts are needed to expand the scale of operations through injection of special low cost debts from the Government of Tamil Nadu.

Thus, the hypothesis stating that handloom societies endowed with better economies of scale of operations will be using retained earnings or funds from...
operations for the expansion of business had been proved as in group - I and group - II societies (Except Sri Mariamman Society). And group - III societies which suffered due to low scale of operations had to depend on external sources or borrowings to sustain their operations also prove the hypothesis.

7.1.4 Management of Working Capital

Among group - I societies, only Athur Anna society had positive net raw material cycles in all the years and the remaining two societies posted negative net raw material cycle days in some of the years due to long trade credit cycles. They had to pay the sundry creditors in time; all the three societies have shown crisp conversion cycles thanks to the efforts of the weavers and the management. Similarly the storage cycle days were also quite moderate and were shortened when they improved the volume of production and sales. But all the societies posted very long durations of collection cycles exceeding an average of 300 days. They could not control the long durations in collection cycles due to seasonality of the products and absence of effective dues collection mechanism. If this collection cycle alone is reduced, it may pave way for achieving high turnover of working capital and profits.

In respect of group - II societies, all of them had negative net raw material cycles in some of the years indicating the use sundry creditors for managing the financial needs of the societies. And all of them have effectively managed the conversion and storage cycles in short durations. These cycles were found to be
even crisper when they improved their volume of operations. Among them, Sri Mariamman society had managed to record better performance in the above two cycles when compared to other two societies.

But for the known reasons, all the societies have posted long collection cycles exceeding 300 days in most of the years. As discussed earlier, collection cycles need to be controlled and brought down through appropriate measures like installing an effective system in dues collection contacting the buyers frequently for the settlement of dues.

In respect of group - III societies, Perichipalayam and Rajendram Sachidanantha societies had negative net raw material cycles in two or three years out of ten years. But Thogamalai Padmasala society posted very long negative net raw material cycles in all the years affecting its goodwill and was in trouble due to lack luster performance. Performance in respect of conversion cycle was found to be managed fairly well but had shown high variability in between the years.

Storage cycle days were found to moderate and shorter in respect of Perichipalayam and Rajendram Sachidanantha societies. But Thogamalai Padmasala society had recorded longer durations due to huge stocks of unsold finished goods. It has to strengthen its marketing net work to sell the stocks of finished goods in time. The collection cycles were unduly long in all the three societies leading to longer total operating cycles and lower ratios of turnover of
working capital. Appropriate efforts as discussed in the text need to be undertaken in order to improve the turnover of working capital.

Thus, the hypothesis stating that irrespective of scale of operations, all the societies will have longer durations of operating cycles particularly in collection cycles due to seasonality in the sale of textile goods has been proved as all the societies had posted longer durations of collection cycles during the study period.

7.2 Suggestions

From the findings of the present study the following suggestions are made for the efficient and better functioning of the handloom co-operatives in Karur District.

7.2.1 Formation of Export Consortium

Karur is known for home textiles and many global buying agencies source their requirements from Karur only. There are 36 active handloom co-operative societies in Karur District and all the societies invariably produce home textiles like ribbed mats, runners, doormats, window screens, table mates and aprons etc. The private buyer agencies source their requirements from these societies and they sell to global firms with higher margins. To cut short of such intermediaries, the Directorate of Handlooms and Textiles, Government of Tamil Nadu may think of establishing an exclusive export consortium at Karur. This export consortium will contact the buyers; identify the designs and products that are in demand and issue orders to the handloom societies. The societies will
manufacture home textile items identified by the consortium. The consortium will undertake exporting with usual forms and procedures to the buying houses and firms abroad. The consortium will have the representatives of the member societies in Karur district in addition to the representatives from the Department of Handlooms & Textiles, Government of Tamil Nadu and other national level export promotion councils like Handloom Export Promotion Council and All India Export Promotion Council etc.

The consortium for export of home textiles will be functioning like an export house and the funds needed for the consortium can be generated by the contribution of share capital by the member handloom societies. The profits generated out of the exporting operations will be shared by the members societies. This effort will bring sustainable avenue for export of home textiles from the societies of Karur district.

7.2.2 Manpower Training and Development

All the handloom societies in Karur district produce export oriented products and buying houses enforce stringent quality norms to accept the lot. In this context the quality of the finished products need to match the standards stipulated by the buying agencies. Quality of textile goods depend on raw material quality and process quality achieved through hand weaving. Hand weaving impose lot of variations during weaving. Hence, to upgrade the quality levels it is necessary to train the weavers in qualitative methods of production in the handloom.
In order to inculcate quality oriented production methodologies, it is suggested to establish a textile training institute at Karur to train the weavers in high quality home textile production. The training institute will not only offer training to the weavers but also to the managers of these societies. Hence, this effort will strengthen the business prospects of Karur home textile cluster.

7.2.3 Engaging Professional Service Firms for Dues Collection

The present study has identified that all the handloom societies had experienced longer duration of collection cycles exceeding 250 days in most of the years. These societies could not collect the money from the parties who have purchased materials from them. These long collection cycles will affect the turnover of working capital and thereby profit margins. In order to reduce the collection cycles, the societies may engage professional service firms for dues collections. The professional agency will facilitate the collection of dues in time with nominal charges for the services rendered by them. Some of the banking arms may be used in this venture.

7.2.4 Clusterization of Karur Handloom Co-operatives

Karur district has geographical agglomeration that lends critical advantage in terms of scope for specialization in home textiles. The hand weaving units do not have to go for integrated manufacture but can concentrate on specific areas like manufacture of home textiles, dyeing and ornamentation etc. And the Government of India has earmarked schemes for clusterization of handlooms.
Clusterization will bring in technical expertise, skill upgradation, marketing information, technological upgradation, more welfare schemes and new markets. The executives of Karur District handloom co-operatives and the Department of Handlooms and Textiles, Government of Tamil Nadu should work for speedy implementation of the cluster development programme for Karur handlooms. This effort will synergise the export opportunities and governmental schemes that will facilitate the overall development of the handloom societies on sustainable basis in Karur District.

7.3 Areas identified for further study

The study reveals inadequacies in, production management, quality control and management of sundry debtors and quality of work life of the weavers’. Therefore further studies in inventory control, production control, quality control and management of sundry debtors quality of work life of the weavers promise to be rewarding exercises benefiting weavers’ co-operative societies in Karur district.