

Liquidity Position of Private Sector Textile Companies in India-A Case Study

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Abstract: The present paper examines the liquidity position of purposively selected two textile private companies under the study based on secondary data obtained from CMIE Prowess Database for the period from 2008-2013 with the application of descriptive statistics. In recent times, the behaviour of the Indian people in terms of wearing imported garments has been changed significantly. As a result, the profitability of the Indian textiles industries have been below the normal level as its in the earlier decades due to its improper investment in working capital in terms of liquidity. The empirical results illustrate that liquidity position is poor in case of both the companies under the study and their liquidity management is also faulty.

Keywords: Working capital, liquidity, profitability, textile industries, private sectors, India, descriptive statistics

INTRODUCTION

Working capital is incredibly significant thought in finance. Also it is very much imperative in business for managing day to day activities. If the business has enough cash, it facilitates the business to meet up debt commitments and operating expenses in the short-run. Excellent working capital management will safe and sounds a business financial build and facilitate make its business. It is obligatory for mounting earnings and formulates it easier to obtain business lends as well as create a center of attention to prospective investors. The growth rate of the business can be augmented with cash through flexible its investment programmes as well as by means of managing profit proficiently. It is imperative in the direction of having good working capital management so as to recognize the exact occasion to convert the company's current assets into cash [1]. Most of the business across the globe collapses is on account of unsatisfactory performance of working capital components. At the same time the business's achievement greatly hinges on how regular they are competent to make more cash[2]. Shin and Soenen rightly pointed out that working capital management is immensely essential for business tactic and the techniques of its management encompasses a major shock on the liquidity as well as the profitability of the business firm [3]. Working capital management has an undeviating impact on profitability and liquidity of a company because profitability and liquidity are the twin objects of working capital management. The company that isn't lucrative is serene and although it prolongs its action, it will lose its worth or importance in the stock market of company, however the company without liquidity is unable to persist his existence [4].

The Indian textile industry counts among the leading textile industries in the world. Apart from providing the basic necessities of life, its role in the country's economic growth is significant. India's textile industry contributes about 14 percent to industrial production; 4 percent to the country's gross domestic product; 17 percent to its export earnings; and is a source of direct employment for over 35 million people, which makes it the second largest provider of employment after agriculture, abundant raw materials healthy foreign direct investment (FDI) and a government willing to invest ensures a bright future of India's textile sector [5]. In recent times, the behaviour of the Indian people in terms of wearing imported garments has been changed significantly. Moreover, in the first decade of the new century the production and sales values of the Indian textiles industries, especially cloth making it have been decreased for which the profitability of the Indian textiles industries have been below the normal level as its in the earlier decades. Keeping in view of this, the present study is to investigate the impact of working capital management on profitability of the selected Indian textiles industries.

REVIEW OF RELATED LITERATURE

A concise appraisal of the diverse aches of research in this ground is endeavored in the following paragraphs.

Manjhi and Kulkarni examined the working capital position and company's performance of the textile industry of Gujarat of selected five company for a period of eleven years with the help of ratio analysis, descriptive statistics etc. The study demonstrated that

all the companies under the study working capital position and company's financial performance are good as well as efficient [6].

Zahid and Nanik observed the financial performance of the textile sector based on secondary data with the help of accounting ratios. He finds that financial indicators in terms of inventory management, payable management, receivables management, productivity, fixed assets etc. was negatively influenced by financial crisis [7].

Kumar talked about EXIM performance of the Indian textile industries in the midst of inflation, textile production, sales income, PAT. He demonstrated that the export and import performance in the crisis period of the Indian textile industries are not sound because of inflation [8].

Singh and Bansal examined the working capital management based on secondary data of the selected sectors with the help of financial ratio analysis, t-test and working capital cycle analysis etc. They illustrated that all the sectors should ponder on their liquidity and proper utilization of working capital and contemplates working capital management, achievements, profitability appraises [9].

Virambhai investigated the financial position and its performances in terms of productivity and efficiency of the selected textile industry based on secondary data. He illustrated that the companies under the study should endeavor to enhance its production, curtail its cost and operating expenses, implement suitable liquidity[10].

Singh established that the size of inventory straightforwardly influences working capital and its management. He suggested that inventory was the foremost component of working capital, and desired to be cautiously prescribed [9].

Nusrat and Assocham examined the financial performance in terms of working capital of 28 textiles companies from Mumbai Stock Exchange based on secondary data with the help of accounting data[11].

The convincing amount of this demonstration literature review produced till date on the offered subject discloses wide room for the strength as well as initiates of this work and replicates several crucial proofs so as to assert its feasibility, as may be marked here it. Nor has any previous research examined the short-term liquidity position and efficiency of Indian textile companies in this fashion before the present one[12].

Objectives of the Study

The present study is to investigate the liquidity position of the selected textile industry in India. More specifically, it seeks to dwell upon mainly the following issues:

- To observe the liquidity position of the selected companies under the study.
- To find out the effectiveness of the selected companies under the study.

EXPERIMENTAL

Methodology of the study

The purposive sample method has been applied in this analysis. We select two textiles industries operating in India in the present study i.e., (i) Arvind Ltd and (ii) East India Cotton Manufacturing Co. Ltd. The study is based on the secondary data collects from CMIE database for the period of 6 years, starting from 2008 and ending 2013. In the course of the analysis, descriptive statistics, correlation statistics and multiple correlation and regression analysis. The use of all these techniques at different places has been made in the light of requirement of analysis.

Empirical Result and Analysis

Component-wise liquidity position of each of the selected textile companies under the study is drafted one by one in the sub-sections that follow.

Liquidity Position based on Current Ratio

Current ratio is a measure of general liquidity and is most widely used to make the analysis of short-term liquidity of firm. A relatively high current ratio is an indication that the firm has liquidity and has the ability to pay the current obligation as and when they become due. Current ratios of operating selected two textile companies are depicted in Table 1.

Table 1:- Descriptive Statistics Current Ratio

	Arvind ltd	East India ltd	Industry average
Mean	0.8807	0.5733	1.0590
S.D.	0.0757	0.3008	0.1487
C.V. (%)	8.60	52.47	13.27
Maximum	0.9630	1.1160	1.2720
Minimum	0.7630	0.2480	0.9020
Skewness	-0.4967	0.7115	0.5263
Kurtosis	-1.6540	-0.0300	-1.8986

Table shows that current ratio of Arvind Ltd. during the period of study is unsatisfactory as its average are 0.88 which is lower than 1.0590, grand industry average, which is taken as yardstick. This ratio in case of East India Ltd. (0.57) is very poor because the ratio is very much lower than grand industry average. This indicates that both the companies have not been able to meet their matured current obligations in time under the study period.

Coefficient of variation of current ratio of industry as a whole is 13.27%. Coefficient of variation of current ratio is 8.60% in case of Arvind Ltd., which is lower than industry average. In the matter of the management of liquidity, it also shows more consistency during the study period. Lower variability in the current ratio points out proper or efficient management of fund. In case of East India Ltd., coefficient of variation of current ratio is higher than industry average which shows less consistency during the study period of this company. Greater variability in

the current ratio points out improper or inefficient management of fund. The above series are not normally distributed.

Liquidity Position based on Liquid Ratio

Liquid ratio is more accurate test of liquidity than current ratio. A high liquid ratio is a signal that the company has liquidity as well as capacity to meet up its current liabilities in time. But a low liquid ratio represents that liquidity position of the company is not good. Liquid ratios of operating two textile companies are portrayed in Table 2.

As per Table 2, a very poor liquidity position is seen in case of Arvind Ltd. with an average of 0.35 that is lower than grand industry average. Liquid ratio of East India Ltd. is also unsatisfactory with averages of 0.49 under the study period; because it is less than grand industry average of 0.57, which is taken as yardstick. This indicates that they have been able to meet their matured current obligations in time.

Table 2:- Descriptive Statistics Liquid Ratio

	Arvind ltd	East India ltd	Industry average
Mean	0.349333	0.492167	0.568333
S.D.	0.056165	0.264378	0.084732
C.V. (%)	16.0779	53.7172	14.9089
Maximum	0.44	0.843	0.692
Minimum	0.261	0.15	0.464
Skewness	0.128441	0.112535	0.339648
Kurtosis	0.251221	-2.08847	-1.72017

Coefficient of variation liquid ratio of Arvind Ltd. is 16.08% is higher than whole industry average of 14.91%. It indicates to some extent less consistency during the study period. Again in case of East India Ltd., coefficient of variation of liquid ratio is 53.72%, which is also very elevated than whole industry average. In the matter of the management of liquidity, greater variability in the liquid ratio indicates improper or less efficient management of fund in case of both the companies under study. The above series are not normally distributed.

Liquidity Position based on Cash Position Ratio

Cash and near cash is the most liquid asset. Cash position ratio is further perfect investigation of liquidity than current and liquid ratio. It is painstaking as most useful indicator to check the unconditional liquidity position of any enterprise. In determining the cash, inventories and accounts receivable are deducted from current assets. This ratio of operating two private sector textile companies is shown in Table 3.

Table 3:- Descriptive Statistics Cash Position Ratio

	Arvind ltd	East India ltd	Industry average
Mean	0.034167	0.1295	0.058833
S.D.	0.016866	0.103552	0.017892
C.V. (%)	49.3648	79.9626	30.4121
Maximum	0.071000	0.307000	0.095000
Minimum	0.020000	0.009000	0.042000
Skewness	1.600236	0.403972	1.177346
Kurtosis	5.095487	-0.49019	2.395729

It is exciting to seen from table 3 that average of cash position ratio in case of Arvind Ltd. is 0.03, not just only poor, it is less than grand industry average

(0.02). This indicates that Arvind Ltd. does not maintain any liquid cash to summit short-term full-blown commitments as well as daily expenditures.

From the perspective of short-term liquidity it is observed that this ratio is satisfactory in the case of East India Ltd. is 0.10.

Coefficient of variation of cash position ratio of industry as a whole is 0.30%. Coefficient of variation of absolute liquid ratio of both companies under the study is 49.36% and 79.96% which is very higher than grand industry average (30.41%). In the matter of the management of liquidity, it furthermore demonstrates less consistency during the study period of these companies. The above series are not normally distributed.

Liquidity Position based on Debt-Equity Ratio

Debt equity ratio is an indicator of liquidity position and also important for soundness of financial position as well as financial policies in a short period of the firm .It measures the direct proportion of debt to

equity capital. It also indicates the proportion of owners' stake in the business. In other words, this indicates the amplitude to which the firm depends upon outsiders for its existence. The ratio indicates the margin of safety to the creditor.

Table 4 shows that the debt equity ratios of two industries (Arvind Ltd. and East India Ltd.) are 1.64 and 0.64 respectively that is less than grand industry average is 3.47. Coefficient of variation of debt equity ratio in Arvind ltd is 21.35% that is lower than grand industry average, 37.52%. This indicates more consistency and thus the companies under not forever depend upon short-term and long term sources. Whereas Coefficient of variation of East India ltd is 134.09%, which is higher than grand industry average. This indicates less consistency and thus the companies are depending upon short term and long term sources. The above series are not normally distributed.

Table 4:- Descriptive Statistics Debt-Equity Ratio

	Arvind ltd	East India ltd	Industry average
Mean	1.643333	0.69	3.470667
S.D.	0.350774	0.925209	1.302178
C.V. (%)	21.3453	134.0882	37.5195
Maximum	2.28	2.592	5.372
Minimum	1.216	0	1.959
Skewness	0.558396	1.244863	0.160179
Kurtosis	0.55783	2.887225	-1.83259

Liquidity Position based on Interest Coverage Ratio

Table 5 shows that the interest coverage ratio (ICR) is a measure of a company's ability to meet its interest payments. Interest coverage ratio is also known as interest coverage, debt service ratio or debt service coverage ratio. Interest coverage ratio is equal to earnings before interest and taxes (EBIT) for a time

period, often one year, divided by interest expenses for the same time period. The interest coverage ratio is a measure of the number of times a company could make the interest payments on its debt with its EBIT. It determines how easily a company can pay interest expenses on outstanding debt.

Table 5:- Descriptive Statistics Interest Coverage Ratio

	Arvind ltd	East India ltd	Industry average
Mean	10.1	0.82	1.394
S.D.	1.006645	1.309045	0.310959
C.V. (%)	9.9668	159.6397	22.3070
Maximum	11.4	3.4	1.947
Minimum	8.4	0	0.91
Skewness	-0.248023	1.398629	0.311486
Kurtosis	-0.22055	4.391391	1.500816

The ICR of Arvind ltd is 10.1 which are higher than grand industry average (1.39). A higher ratio indicates a better financial health as it means that the company is more capable to meets its interest obligation from operating earnings. While the interest coverage ratio of East India ltd 0.82 which is lower than grand industry average of 1.39. The interest coverage ratio below 1.0 indicates the business is having difficulties generating the cash necessary to pay its interest obligations.

Coefficient of variation of interest coverage in Arvind ltd is 9.97% that is lower than grand industry average, 22.31%. This indicates more consistency. Whereas coefficient of variation of East India ltd is 159.64%, which is higher than grand industry average. This indicates less consistency and thus the companies are depending upon borrowings. The above series are not normally distributed.

Liquidity Position based on Stock Turnover Ratio

Stock turnover ratio ascertains the affiliation between the costs of goods sold and average stock. This ratio determines the swiftness of switch of stock into sales. By and large, a high stock turnover points out efficient management of stock for the reason that more regularly the stock is sold, the lesser amount of money

is required to finance stock. A low stock turnover ratio indicates inefficient management of stock, over investment in stocks, slothful business, and poor quality of goods that bring about lower profit as compared to total investment. Stock turnover ratio of operating two textile companies is tabulated in Table- 6.

Table 6:- Descriptive Statistics of Stock Turnover Ratio

	Arvind ltd	East India ltd	Industry average
Mean	8.264167	30.368	10.530833
S.D.	0.684876	32.447688	0.812605
C.V. (%)	8.2873	106.8483	7.7164
Maximum	9.018000	76.062000	11.764
Minimum	7.133	3.871	9.402000
Skewness	-0.374782	0.680359	0.106014
Kurtosis	-1.21589	5.551601	-1.1021

Arvind ltd shows unsatisfactory management of stock turnover because stock turnover ratio of Arvind ltd (8.2642) is less than grand industry average (10.5308) and East India ltd shows satisfactory management of stock turnover because stock turnover ratio of East India ltd. (30.368) is more than grand industry average (10.5308). High stock turnover indicates companies activity position are satisfactory, they are able to sell their product within shorter period of time that indicate sound liquidity position of organization.

Coefficient of variation of stock turnover ratio of industry as a whole is 7.72%. Coefficient of variation of stock turnover ratio is 106.85% in case of East India ltd. which is more than industry average. In the matter of the management of liquidity, it also shows less consistency during the study period. On the other hand,

coefficient of variation of stock turnover ratio is 8.29% in case of Arvind ltd. which is less than industry average. In the matter of the management of liquidity, it also shows more consistency during the study period. Both skewness and kurtosis confirms that none of the series are normally distributed.

Liquidity Position based on Debtors Turnover Ratio

Debtors' turnover ratio provides a signal of the effectiveness of the credit and collection policy of the firm and it will straightforwardly influence the liquidity position of the company. It is a test of speed in which debtors are converted into cash. Lower the debtors to sales ratio, better is the liquidity of debtors and it means prompt payment by the customers. Debtors' turnover ratio of operating two private sectors textile is exposed in Table 7.

Table 7:- Descriptive Statistics Debtor Turnover Ratio

	Arvind ltd	East India ltd	Industry average
Mean	8.861333	0.808800	4.6765
S.D.	0.590771	1.595132	0.207488
C.V. (%)	6.6668	197.222	4.4368
Maximum	9.71	3.999	4.883
Minimum	7.792	0	4.377
Skewness	-0.459919	1.499851	0.597375
Kurtosis	1.116185	4.999203	-1.8384

Table 7 shows debtors turnover ratio which indicates the speed at which the sundry debtors are converted in the form of cash. It indicates the number of times the debtors are turned over a year. It is the reliable measure of receivables from credit sales. The higher the value, the more efficient in the management of debtors. Similarly, lower the ratio means inefficient management of debtors.

In Arvind ltd the ratio of debtor turnover is 8.86 that are higher than grand industry average of 4.68. As the ratio is lower it indicates inefficient management of debtor. While East India ltd is 0.81 that is also lower than industry average. It indicates the East India ltd is not efficiently managed the debtor.

Coefficient of variation of debtors' turnover ratio of industry as a whole is 4.44%. Coefficient of

variation of debtors' turnover ratio is 197.22% in case of East India ltd. which is more than industry average. In the matter of the management of liquidity, it also shows less consistency during the study period. On the other hand, coefficient of variation of debtors' turnover ratio is 6.67% in case of Arvind ltd. which is slightly higher than grand industry average. In the matter of the management of liquidity, it also shows less consistency during the study period. Both skewness and kurtosis confirms that none of the series are normally distributed.

Liquidity Position based on Creditors Turnover Ratio

Table 8:- Descriptive Statistics Creditor Turnover Ratio

	Arvind ltd	East India ltd	Industry average
Mean	5.5912	0.9508	7.66
S.D.	0.8894	1.7413	1.1639
C.V. (%)	15.9078	183.1384	15.1955
Maximum	6.9671	4.4333	9.641
Minimum	4.7040	0.0500	6.227
Skewness	0.5152	1.4992	0.4826
Kurtosis	-1.7044	4.9958	0.5943

Coefficient of variation of creditors' turnover ratio of industry as a whole is 15.20%. Coefficient of variation of creditors' turnover ratio is 183.14% in case of East India ltd. which is more than industry average. In the matter of the management of liquidity, it also shows less consistency during the study period. On the other hand, coefficient of variation of creditors' turnover ratio is 15.91% in case of Arvind ltd. which is a little higher than grand industry average. In the matter of the management of liquidity, it also shows perfect consistency during the study period. Both skewness and kurtosis corroborates that none of the series are normally distributed.

CONCLUSIONS

The primary findings of the study are liquidity position is not satisfactory due to under-investment in case both the companies under the study but cash position are satisfactory in case of East India Ltd for meeting daily commitments than Arvind Ltd. For meeting daily expenses both the companies depend upon borrowings through short-term and long-term sources. Furthermore, Arvind ltd. is more competent to meets up its interest obligation from operating earnings while the East India ltd is having difficulties generating the cash necessary to pay its interest obligations. East India Ltd. is able to sell their product within shorter period of time than Arvind Ltd that indicates efficient management of stock. Because of well-organized collection policy, East India Ltd. is able to collect dues amount from the customers within shorter period of time than Arvind Ltd. Again, payable management is not satisfactory in case of both the companies under the study on account of unsystematic payment policy.

Table 8 shows the creditors' turnover ratio which indicates the indication of efficiency of the credit and payment policy of the firm and liquidity position directly depend on this period. This ratio of Arvind Ltd is 5.59 that are slightly lower than grand industry average of 7.66 which indicates the inefficient and poor payment policy that is accountable to decrease current liabilities burden and suffering condition of liquidity position. Whereas, this ratio of East India ltd (0.95) is moreover very lower than grand industry average that indicates that the credit and payment policy of the firm is inefficient.

Therefore, firm manger should worry on liquidity position and the effectiveness of the companies under the study in principle of making shareholder affluence.

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