

## Financial Performance of Textile Industry in Tamilnadu with Special Reference to Coimbatore – A Study of Working Capital Management

R. Subha\*<sup>1</sup>, Dr.N.Ramu<sup>2</sup>

<sup>1</sup>Research Scholar, Department of Commerce, Annamalai University, Annamalainagar, Tamilnadu, India

<sup>2</sup>Associate Professor of Commerce, Annamalai University, Annamalainagar, Tamilnadu, India

\*Corresponding Author: R. Subha; Email: [santhanam\\_chi@yahoo.com](mailto:santhanam_chi@yahoo.com)

**Abstract:** The study analysed the working capital management of five textile companies in Coimbatore for the study period of ten years from 2003-04 to 2012-13. It mainly used ratio analysis as financial tools. The study found that current ratio of Lakshmi Mills Ltd., Bannari Amman Spinning Mills Ltd., and Gangotri Textiles Ltd. were good. Liquidity ratio of any company was not satisfactory. Absolute liquid ratio of the selected companies did not have the ratio as per the standard norm in any year of the study period. Ambika Cotton Mills Ltd. and KG Denim Ltd. did not have satisfactory level of cash position ratio in any year of the study period. Inventory conversion period was good for Gangotri Textiles Ltd. followed by KG Denim Ltd. It was poor for Ambika Cotton Mills Ltd. Collection management was efficient for Ambika Cotton Mills Ltd. followed by Bannari Amman Spinning Mills Ltd. It was not satisfactory for Gangotri Textiles Ltd. Average payment period of Ambika Cotton Mills Ltd. was higher than any other selected company followed by KG Denim Ltd. It was lower for Gangotri Textiles Ltd. followed by Bannari Amman Spinning Mills Ltd. Cash conversion cycle of Ambika Cotton Mills Ltd. was very short and it was negative for KG denim Ltd.

**Keywords:** capital management, Coimbatore, Cotton Mills, Liquidity ratio.

### INTRODUCTION

India is one of the fastest developing economies in the world. Many sectors such as agricultural sector, manufacturing sector and service sector are contributing more to the economy of India and it also gives more employment opportunities to the people. In manufacturing sector many industries are there, among them textile industry is one of the biggest industries and which provide more employment opportunities to the people. The Indian Textile Industry counts among the leading textile industries in the world. As per the Textiles Ministry of Government of India, in 2010, there were 2,500 textile weaving factories and 4,135 textile finishing factories in all of India. Apart from providing the basic necessities of life, its role in the country's economic growth is significant. It is the leading manufacturing industry in India; it contributes about 14 per cent to total industrial production of India. Gross domestic product (GDP) is a common measurement to measure an economy. Indian textile industry contributes about 4 per cent to the country's gross domestic product. Indian textile companies are exporting more to foreign countries and it brings more foreign currency. The share of textiles in total exports was 11.04% during April–July 2010 [1]. As a major manufacturing industry in India and it is labour intensive in nature, so it gives more employment opportunities to people. It has provided direct employment for over 35 million people in India [2], which makes it the second largest provider of

employment after agriculture. Other than direct employment it also has given indirect employment to considerable number of people in India. This study is based on previous works [3-6].

### Statement of the problem

Textile industry is one of the biggest industries in India. Textile industry is playing a significant role in the economy. It is providing more employment opportunity to the people, it brings more foreign currency into the country though export, it contributes more to gross domestic product of the economy. As the important industry in India, it is necessary to study about the industry. As per the report of textile ministry of India majority of textile mills were closed due to financial difficulties. So, it is necessary to study the financial management of textile industries. Liquidity management is a critical management in financial management. It refers to ability of meet out short term financial obligation of a company. Inefficient working capital management may affect profitability and some time lead for bankruptcy, so study of working capital management of a selected textile company is studied in the paper.

### Objective of the study

- To assess the working capital management of selected textile companies.

**METHODOLOGY**

The present study is empirical in nature it selected five major textile companies in Coimbatore such as Ambika Cotton Mills Ltd., Bannari Amman Spinning Mills Ltd., Gangotri Textiles Ltd., Lakshmi Mills Ltd. and KG Denim Ltd. as sample of the study. It required secondary data for analysis they were collected from annual reports of the selected companies. They were collected for the period of ten years from 2003-04

to 2012-13. The study mainly used ratio analysis as statistical tool.

**RESULTS AND DISCUSSION**

In financial performance analysis of a company it is necessary to analyse liquidity analysis. Short term liquidity of the company refers to the ability of the company to meet-out their short term financial obligation out of their short term assets.

**Table-1: Current Ratio of Select Textile Companies**

Year	Ambika	Bannari	Gangotri	Lakshmi	KG Denim
2003-04	2.31	5.55	2.84	0.90	1.30
2004-05	2.65	1.88	3.08	0.98	1.51
2005-06	2.54	2.58	2.49	0.98	1.22
2006-07	2.09	2.77	1.54	1.23	1.47
2007-08	1.97	3.04	2.82	1.45	1.44
2008-09	1.89	1.78	2.09	1.05	1.45
2009-10	1.82	1.43	2.79	5.08	1.00
2010-11	1.72	2.05	2.23	4.55	1.13
2011-12	0.81	0.98	1.34	3.97	1.29
2012-13	0.76	0.99	0.94	4.97	1.11
Mean Ratio	1.86	2.30	2.21	2.51	1.29
Standard Deviation	0.64	1.34	0.73	1.86	0.17
Co-efficient of Variation	34.50	58.07	32.88	73.92	13.54

Source: Computed from annual reports

Table 1 reveals that current ratio of Ambika Cotton Mills Ltd., was more than the standard norm for the first four years of the study period and it went down and it was between 1 and 2 for the next four years. For the last two years of the study period current ratio of the company went below one. Mean current ratio was 1.86 for the study period, it showed good management of working capital over the stud period. Co-efficient of variation of current ratio was 34.5 per cent; it indicated slight fluctuation of current ratio from its mean ratio. The results of table 1also indicate that current ratio of Bannari Amman Spinning Mills Ltd., was more than 2 for five years out of 10 years of the study period, it was between 1 and 2 for three years and it was less than one for the last two years of the study period. Mean value of current ratio was more than 2, so the company managed its working capital efficiently during the study period. Current ratio of Gangotri Textiles Ltd., was more than the standard norm for eight years out of ten years of the study period. The mean value of current ratio was more than the standard norm, so working capital management of Gangotri Textiles Ltd., in terms

of current ratio was satisfactory. Co-efficient of variation of current ratio was 32.88 per cent, it was considered low and therefore there was no major fluctuation in current ratio from its average ratio. Current ratio was very poor for Lakshmi Mills Ltd., for the first six years of the study period and it was satisfactory for the next four years of the study period. During the first three years of the study period its current ratio was less than one and it was more than one for the next three years but not more than two. The mean value of current ratio was more than standard norm so working capital management in terms of current ratio was satisfactory during the study period. Co-efficient of variation of current ratio was 73.92 per cent, this higher rate indicated wide fluctuation in current ratio from its mean. Current ratio of KG Denim company was not as per standard norm in any years of the study period. The mean value of current ratio stood at 1.29 and it showed that overall working capital management in terms of current ratio of this company was not satisfactory.

**Table-2: Liquid Ratio of Select Textile Companies**

Year	Ambika	Bannari	Gangotri	Lakshmi	KG Denim
2003-04	0.08	0.46	1.19	0.26	0.32
2004-05	0.27	0.17	1.37	0.24	0.36
2005-06	0.15	0.20	1.15	0.40	0.31
2006-07	0.15	0.26	0.49	0.41	0.37
2007-08	0.27	0.66	0.89	0.51	0.44
2008-09	0.14	0.34	0.67	0.46	0.53
2009-10	0.32	0.44	1.14	0.48	0.30
2010-11	0.24	0.34	0.83	0.46	0.39
2011-12	0.11	0.31	0.52	0.61	0.38
2012-13	0.06	0.42	0.62	0.09	0.25
Mean Ratio	0.18	0.36	0.88	0.39	0.36
Standard Deviation	0.09	0.14	0.31	0.15	0.08
Co-efficient of Variation	49.02	39.72	35.14	39.18	21.62

Source: Computed from annual reports

Table 2 shows that liquid ratio of Ambika Cotton Mills Ltd., was not as per standard norm (1.5:1) in any year. The mean value of liquidity ratio stood at 0.18 it shows that overall liquidity position of the company was weak. The co-efficient of variation was 49 per cent, it shows moderate level of variation in this ratio from its mean value. Liquid ratios of Bannari Amman Spinning Mills Ltd. indicate that in no year it was as per the standard norm (1.5:1). The mean liquidity ratio was 0.36:1, it was considered low and their liquidity position was not satisfactory. Liquid ratio of Gangotri Textiles Ltd. was highest during 2004-05 (1.37:1) followed by 2003-04 (1.19), 2005-06 (1.15) and 2009-10 (1.14). Mean value of liquid ratio was 0.88 for this company, it was less than one and therefore the liquidity position of this company was not

satisfactory over the study period. Co-efficient of variation of liquid ratio was 35 per cent, this reveals moderate level of deviation from its mean. Liquidratio of Lakshmi Mills Co. Ltd. was not as per the standard norm (1.5:1) in any year of the study period. The mean value of liquid ratio of this company stood at 0.39:1, it showed that during the study period the liquidity position of the company was not satisfactory. Liquid ratio of KG Denim also was not as per the standard norm in any year of the study period. The mean liquid ratio was 0.36, it showed that liquidity position of this company was very poor during the study period. The standard deviation of liquid ratio was 0.08 and its co-efficient of variation was 21.62 per cent. It showed that deviation in liquid ratio from its mean was not wide over the study period.

**Table-3: Absolute Liquid Ratio of Selected Textile Companies**

Year	Ambika	Bannari	Gangotri	Lakshmi	KG Denim
2003-04	0.06	0.12	0.03	0.03	0.06
2004-05	0.20	0.03	0.26	0.03	0.04
2005-06	0.10	0.06	0.30	0.26	0.03
2006-07	0.07	0.07	0.02	0.20	0.07
2007-08	0.20	0.33	0.05	0.06	0.09
2008-09	0.03	0.05	0.08	0.03	0.04
2009-10	0.06	0.15	0.24	0.09	0.03
2010-11	0.03	0.03	0.04	0.03	0.03
2011-12	0.02	0.08	0.02	0.23	0.07
2012-13	0.01	0.14	0.02	0.09	0.06
Mean Ratio	0.08	0.11	0.11	0.10	0.05
Standard Deviation	0.07	0.09	0.11	0.09	0.02
Co-efficient of Variation	90.86	83.05	106.97	86.40	42.31

Source: Computed from annual reports

Table 3 reports that cash position ratio of Ambika Cotton Mills Ltd. was not as per the standard

norm (0.5) in any year of the study period. The mean value of absolute liquid ratio of the company was 0.08,

it showed that cash position of the company was not satisfactory over the study period. Absolute liquid ratio of Bannari Amman Spinning mills Ltd. for the year 2007-08 (0.33:1) only was near the standard norm (0.5:1) and in all the years it was low. The mean value of absolute liquid ratio was 0.11, it was considered lower and therefore its cash position was not satisfactory over the study period. Absolute liquid ratio of Gangotri Textiles Ltd. was not as per the standard norm in any year of the study period. The highest absolute liquid ratio was found in the year 2005-06 (0.30) followed by 2004-05 (0.26) and 2009-10 (0.24). The mean value of absolute ratio of this company was 0.11, it was lower than the standard norm,

so cash position of Gangotri Textiles Ltd. was not satisfactory over the study period. Absolute liquid ratio of Lakshmi Mills Co. Ltd. was not as per the standard norm (0.5) in any year of the study period. The mean value of absolute liquid ratio was 0.10, it was too lower than the standard norm, so over the study period the cash position of this company was not satisfactory. Cash position ratios of KG Denim were too low during all the years of the study period. It was less than 0.1:1 in all the years of the study period. The mean value of absolute liquid ratio was 0.05, this was too low and therefore the cash position of KG Denim was very weak during the study period.

**Table-4: Inventory Conversion Period of Select Textile Companies (Days)**

Year	Ambika	Bannari	Gangotri	Lakshmi	KG Denim
2003-04	212	146	69	65	102
2004-05	273	163	63	59	103
2005-06	304	205	70	57	115
2006-07	343	192	90	67	122
2007-08	246	180	133	75	121
2008-09	215	128	68	57	100
2009-10	228	97	78	331	101
2010-11	171	132	70	275	86
2011-12	78	79	42	285	87
2012-13	85	59	51	285	93
Mean Ratio	215	138	73	156	103
Standard Deviation	86	49	25	120	13
Co-efficient of Variation	39.93	35.32	33.68	77.20	12.52

Source: Computed from annual reports

It was observed from table 4 that inventory conversion period of Ambika Cotton Mills Ltd. was very high for all the years of the study period except last two years. Inventory conversion period ranged from 78 days to 343 days. Mean value of inventory conversion period was 215 days, it was considered too high and therefore it took long time to convert raw material into finished goods. Moderate level of deviation was found in inventory conversion period. Inventory conversion period of Bannari Amman Spinning Mills Ltd. also was high over the study period. This ratio ranged from 59 days to 205 days. Mean value of inventory conversion period was 138 days, it was considered high and therefore efficiency in converting inventory into finished goods was not satisfactory. Co-efficient of variation of inventory conversion period (35 per cent) indicated moderate level of variation in this ratio over the study period. Inventory conversion period of Gangotri Textiles Ltd. was lower than any other company over the study period. The inventory conversion period of this company ranged from 42 days to 133 days. The mean

value of inventory conversion period of Gangotri Textiles Ltd. was 73 days, it was considered too low and therefore this company converted inventory into completed goods quickly. Moderate level of variation was found in inventory conversion ratio. Inventory conversion period of Lakshmi Mills Ltd. was lower during first six years of the study period. But it was abnormally high during last four years of the study period. It ranged from 57 days to 331 days during the study period. Mean value of inventory conversion period of this company was 156 days. It was considered high and overall efficiency of conversion of its raw material was not satisfactory. A wide variation was found in this ratio from its average. Inventory conversion period of KG Denim Ltd was in decreasing trend over the stud period. Inventory conversion period ranged from 86 days to 122 days. Mean value of this ratio was 103 days. Standard deviation of this ratio was 13 days and its calculated value of co-efficient of variation was 13 per cent, it indicated very low variation in this ratio from its average.

**Table-5: Average Collection Period of Select Textile Companies (Days)**

Year	Ambika	Bannari	Gangotri	Lakshmi	KG Denim
2003-04	2	10	48	23	27
2004-05	8	13	41	17	29
2005-06	7	12	44	14	35
2006-07	14	14	40	17	33
2007-08	10	25	57	36	42
2008-09	14	25	28	42	54
2009-10	39	29	42	28	39
2010-11	24	25	39	29	42
2011-12	10	26	26	32	29
2012-13	6	29	98	0	22
Mean Ratio	13	21	46	24	35
Standard Deviation	11	8	20	12	9
Co-efficient of Variation	80.94	36.33	43.43	51.00	26.77

Source: Computed from annual reports

Table 5 shows that average collection period of Ambika Cotton Mills Ltd. ranged from 2 days to 39 days. Mean value of average collection period was 13 days, it was considered very low and therefore their collection management for the study period was good. Standard deviation and co-efficient of variation of the ratio was 11 days and 81 per cent respectively. It showed wide variation in the ratio from its average. Average collection period of Banneri Amman Spinning Mills Ltd. ranged from 10 days to 29 days. Its Mean value was 21 days, it was considered low and the collection efficiency of the company was efficient. There was lower level of variation in average collection period from its average as explained by co-efficient of variation (36 per cent). Average collection period of Gangotri Textiles Ltd. ranged from 26 days to 98 days.

It was comparatively higher than other selected companies. Mean ratio of average collection period was 46 days, it revealed that the collection efficiency was not satisfactory. Moderate level of variation was found in average collection period. Average collection period of Lakshmi Mills Ltd. ranged from 0 days to 42 days. Mean value of average collection period was 24 days, it was less than a month so collection efficiency of the company during the study period was satisfactory. Standard deviation and co-efficient of variation of the company indicated moderate level of variation in average collection period from its mean.

Average collection period of KG Denim Ltd. ranged from 22 days to 54 days. Its mean value stood at 35 days, it was more than a month so their collection efficiency was satisfactory.

**Table-6: Average Payment Period of Select Textile Companies(Days)**

Year	Ambika	Bannari	Gangotri	Lakshmi	KG Denim
2003-04	176	49	67	230	179
2004-05	196	159	54	167	190
2005-06	233	144	81	206	254
2006-07	324	121	131	157	220
2007-08	263	112	105	168	253
2008-09	231	126	79	192	193
2009-10	263	151	80	140	223
2010-11	208	113	81	113	199
2011-12	178	165	90	137	149
2012-13	199	175	249	106	176
Mean Ratio	227	131	102	162	204
Standard Deviation	46	36	56	40	34
Co-efficient of Variation	20.32	27.75	55.04	24.50	16.66

Source: Computed from annual reports

Table 6 shows that average payment period of Ambika Cotton Mills Ltd. ranged from 176 days to 324 days. The mean value of average payment period of Ambika Cotton Mills Ltd. stood at 227 days, it was considered too high. Lower level of deviation was in the ratio. Average payment period of Bannari Amman Spinning Mills Ltd. ranged from 49 days to 175 days over the study period. The mean value of average payment period of the company was 131 days. It shows the efficiency of the company in expanding payment period to its creditors. Lower level of deviation was found in the ratio over the study period. The mean value of average payment period was 56 days. It indicated its efficient management of payment. A moderate level of variation was found in the ratio over the study period. Average payment period of Lakshmi Mills Ltd. was high during the study period. It ranged

from 106 days to 230 days. Mean value of average payment period was 162 days. It was considered longer the company may try to shorter its payment period. Longer payment period may decrease credit worthiness of the company. The deviation of average payment period was low for the company as explained by standard deviation and co-efficient of variation.

Average payment period of KG Denim Ltd. ranged from 149 days to 254 days for the study period. The mean value of average payment period stood at 204 days, it shows the efficiency of the company in expanding its payment, it may give adverse effect to the company in the form of decreasing credit worthiness of the company. Standard deviation of average payment period was 34 days and co-efficient of variation was 17 per cent, it showed very low deviation of the ratio from its average.

**Table-7: Cash Conversion Cycle of Select Textile Companies (Days)**

Year	Ambika	Bannari	Gangotri Textiles Ltd.	Lakshmi	KG Denim
2003-04	38	107	51	-141	-50
2004-05	84	17	51	-91	-59
2005-06	79	73	33	-135	-104
2006-07	32	85	-2	-73	-64
2007-08	-8	92	86	-57	-90
2008-09	-1	27	18	-93	-39
2009-10	4	-25	40	219	-83
2010-11	-13	44	28	190	-70
2011-12	-91	-60	-22	180	-32
2012-13	-108	-86	-100	179	-62
Mean Ratio	2	28	19	18	-66
Standard Deviation	64	67	52	153	23
Co-efficient of Variation	3727.84	242.20	280.45	862.42	-34.27

Source: Computed from annual reports

Table 7 showed that cash conversion cycle of Ambika Cotton Mills Ltd. was positive for the first four years of the study period and it was negative for the remaining years. The mean value of cash conversion cycle was 2 days, it was very low and therefore it was favourable to this company. A wide variation was found in the ratio. Cash conversion cycle of Bannari Amman Spinning Mills Ltd. ranged from -86 days to 107 days over the study period. The mean value of cash conversion cycle of the company was 28 days, its efficiency in cash management was good. As per the results of standard deviation and co-efficient of variation, there was major fluctuation in cash conversion cycle from its average. Cash conversion cycle of Gangotri Textiles Ltd. ranged from -100 days to 86 days during the study period. The mean value of

cash conversion cycle of Gangotri Textiles Ltd. was 19 days, it showed efficient management of the company in converting cash. Very high rate of co-efficient of variation revealed wide fluctuation of the ratio over the years. Cash conversion cycle of Lakshmi Mills Ltd. was negative for the first six years of the study period. Eventhough mean value of cash conversion period of Lakshmi Mills Ltd. stood at 18 days, it may not be taken as the outcome of efficient management, because wide variation was found in cash conversion cycle over the study period. Cash conversion cycle for KG Denim Ltd. was negative over all the years of the study period. It ranged from -104 days to -32 days. Its mean value of cash conversion cycle also stood negative at -66 days. It showed very long average payment period by the company.

## CONCLUSION

The study analysed the working capital management of five textile companies in Coimbatore. Current ratio of Lakshmi Mills Ltd., Bannari Amman Spinning Mills Ltd., and Gangotri Textiles Ltd. were good. Liquidity ratio of any company was not satisfactory. Absolute liquid ratio of the selected companies did not have the ratio as per the standard norm in any year of the study period. Ambika Cotton Mills Ltd. and KG Denim Ltd. did not have satisfactory level of cash position ratio in any year of the study period. Inventory conversion period was good for Gangotri Textiles Ltd. followed by KG Denim Ltd. It was poor for Ambika Cotton Mills Ltd. Collection management was efficient for Ambika Cotton Mills Ltd. followed by Bannari Amman Spinning Mills Ltd. It was not satisfactory for Gangotri Textiles Ltd. Average payment period of Ambika Cotton Mills Ltd. was higher than any other selected company followed by KG Denim Ltd. It was lower for Gangotri Textiles Ltd. followed by Bannari Amman Spinning Mills Ltd. Cash conversion cycle of Ambika Cotton Mills Ltd. was very short and it was negative for KG denim Ltd.

## REFERENCE

1. Ministry of Textiles Report, Government India.
2. Textile Ministry, Government of India.
3. Chellasamy P, Sumathi N; A Study on Growth and Financial Performance of Selected Textile Companies in Coimbatore District, *Journal of Global Economy*, 2007; 3(2):101-113.
4. Shrimali D; Performance of Indian Textile & Clothing Industry in the United States Market: A Post ATC Analysis, *ABHINAV Journal of Research in Commerce and Management*, 2012; 2(3):64-76.
5. Desrani HR; Comparative Study of Ratio Analysis of Selected Textile Companies of India, *International Journal of Research in Humanities and Social Sciences*, 2013; 1(4):.43-52.
6. Rehman W, Fatima G, Ahmad M; Impact of Debt Structure on Profitability in Textile Industry of Pakistan, *International Journal of Economics Research*, 2013; 3(2):61-70.