

DETERMINING THE PROFITABILITY OF SELECTED TEXTILE COMPANIES IN INDIA**K.SENTHILKUMAR**

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Abstract

The Textile Sector in India ranks next to Agriculture Sector. Textile is one of the India's oldest industries and has a formidable presence in the national economy and it contributes about 14 percent of manufacturing value-addition and it accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. The textile industry occupies a unique place in our country. Profitability, in this reference may be return earned in the total assets of the company. Every firm aims to dig up maximum profits out of the invested capital pool. The profit ratio is measured by sales will give a short-term perspective of profitability because sales are annual flows. On the other hand, the return on assets will give us long- term perspective of profitability. In this study, ratio of Return on Capital Employed is used as dependent variable in the specified model.

Key Words: Textiles, Profitability, Return on Capital Employed, Agriculture**Introduction**

The Textile Sector in India ranks next to Agriculture Sector. Textile is one of the India's oldest industries and has a formidable presence in the national economy and it contributes about 14 percent of manufacturing value-addition and it accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. The textile industry occupies a unique place in our country. One of the earliest industries to comes into existence in India. It accounts for 14 per cent of the total Industrial production and contributes to nearly 30 percent of the total exports and is the second largest employment generator after agriculture. The Indian Textile Industry is a vertically integrated industry which covers a large gamut of activities ranging from production of its own raw material namely, cotton, jute, silk and wool to provide the consumers high value added products such as fabrics and garments. India also produces large varieties of synthetic and man made fibres such as filament and spun yarns from polyester, viscose, nylon and acrylic which are used to manufacture fabric and garments. Fashions have always influenced creation of demand in this industry, especially after the rise of retailers, who have control of the commodity chain. By greater understanding of the market than manufacturers, these traders sought to compete through market innovations like new designs and fashion marketing rather than through cost reductions by innovations in production techniques.

Review of literatures

Khatik and Titto Varghese (2011) their study examined that profitability and factors affecting the profitability of HNL. The earning capacity and profitability had analysed through ratio techniques based on sales and investment in nature. The study found that HNL did not had a good return on investment, as it average ROI was much lower than the nominal rate or the bank rate. The study concluded that profitability more or less depends upon the better utilisation of resources and to

manpower. The Net Profit and RONW factor were positively associated for sales, and there was relation exists between Net profit and Net Sales.

Khan et.al (2012) analysed the effect of working capital management on firms' profitability in Pakistan between the period of 2004 and 2009 using textile, chemical, engineering and sugar & allied sectors i.e. the annual cross sectional data for those years were used. The variables of the study were Net Operating Profit (NOP), Inventory Turnover In Days (ITID), Average Payment Period (APP), Current Ratio (CR), firm size in terms of Natural Logarithm Of Sales (LOS), Average Collection Period (ACP), and Debt Ratio (DR). CR and LOS were the control variables. The data were analysed using regression model and sensitivity analysis performed to test the robustness of the result. In the textile sector, the result of the analyses showed that ITID had a significant negative relationship with NOP; APP, CR and LOS had positive significant relationship NOP. ACP and DR had an inverse relationship with NOP which was not even significant and as such, they were dropped from the model. For engineering and chemical sectors, the results were the same except that in the engineering sector, DR had a significant negative relationship with NOP. The results were also similar in the sugar and allied sector except that ACP was highly significantly related with NOP in a positive manner while APP had a negative and an insignificant impact on NOP. Based on these, therefore, they exerted that every sector had its own dynamics since working capital variables reacted differently with profitability in each sector. Thus, they suggested that sufficient level of working capital had essential impact on net operating profitability and liquidity of the firms. However, if the sectors should manage their working capital in a more efficient manner, their profitability would be strengthened. Hence, there was a significant, positive relationship between working capital and firms' profitability.

Statement of the Problem

Textile Industry is providing one of the most basic needs of people and to maintain sustained growth for improving standard of life. It has a unique position as a self-reliant industry, from the production of raw materials to the delivery of finished products, with substantial value-addition at each stage of process. It is a major contribution to the country's economy. Profitability, in this reference may be return earned in the total assets of the company. Every firm aims to dig up maximum profits out of the invested capital pool. The success of the company usually depends on its returns earned, keeping the liquidity prospects in view. Usually, it is a difficult task to trade off between liquidity and profitability, as the conservative policy of working capital may ensure sound liquidity but endangers the profitability. Increasing profitability would tend to reduce firm's liquidity and too much attention on liquidity would tend to affect the profitability. Therefore, firms should always try to maintain a balance between conflicting objectives of liquidity and profitability. Excessive dependence on liquidity indicates the accumulation of idle funds that don't fetch any profits for the firm. On the other hand, insufficient liquidity might damage the firm's goodwill, deteriorate firm's outstanding credit and that might lead to force liquidation of the firm's assets.

Objective of the Study

- To analyze the factors determining the profitability of selected Textile companies in India
- To suggest measures for effective operations and offer recommendations for the improvement of efficiency in Textile industry.

Methodology

Research is a process of a systematic and in-depth study or search of any particular topic, subject or area of investigation, backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a careful search or inquiry into any subject or subject matter, which is an endeavour to discover or find out valuable facts, which would be useful for further application or utilization

researchers and analysis of management problems would result in certain conclusions by means of logical analysis. A scientific approach to the research methodology is very much essential to evaluate the research problem systematically.

Framework of Analysis

For the purpose of analyzing working capital management of the study makes use of various accounting ratios extensively. Ratio analysis helps in comparison of performance of different companies and, summary of various statistical techniques, such as mean and utilization index have been used for analyzing and interpreting the secondary data.

Data Collection

In the present study an extensive use of secondary data which are not gathered specially to meet the needs of the problem at hand. For this study, data have been collected for the period of fifteen years from 1997 to 2011. The published annual reports from CMIE PROWESS database and other publications such as stock exchange official directory, Economics times, Financial Express, RBI Bulletin and Other periodicals Journals have also been used

Sample Size

There are 750 Textile companies listed at CMIE Database out of which seven are selected on the basis of Net Asset Value exceeds Rs. 1000 Crores. The firms are not included as sample whose data is not available or observations are missing for few years. The data used for the research consist of annual data for the period of fifteen years. The annual data under the study period is used as the variables in the research. The sample companies were KSL Industries Limited, Bombay Dying Company Limited, SKumars Nationwide Limited, Raymonds Limited, Vardhaman Textiles Limited, Arvind Limited and National Textiles Limited.

Period of the Study

The study covers a period of fifteen years from 1997 to 2011 and an accounting year of the company consisting of 12 months from 1st April to 31st March.

Limitation of the study

This study is based on secondary data derived from published annual reports of the selected Textile companies. The reliability and findings are largely depending on the published data in the annual reports. The different views have been applied in the calculation of different ratios. The present study is largely based on ratio analysis. It has its own limitations.

Theoretical Frame Works

The relationships between profitability and financial variables have been a major concern in many of the studies done earlier. Profitability has been considered as one of the crucial factors for determining the financial performance of the firm, however, there are different views regarding the nature of relationship between profitability and financial performance ratios. Textile Industry is one of the developing industries in India, which is in the developing phase. Researches about the various financial variables are crucial for its development. Many researchers use different measures of firm's profitability in the analysis of determinants of profitability. Among, return on assets (Hall & Weiss, 1967; Shepherd, 1972; Bothwell et al., 1984; Amato & Wilder, 1990) and Return on sales (Samuels and Smyth, 1968; Nagarajan and Barthwal, 1990; Amit Mallick and Debasish Sur, 1998; Vijayakumar, 2002) are widely used to measure the profitability. It is assumed that management may be concerned with effective utilization of all the resources and these two measures could be proper in this line of arguments. The profit ratio is measured by sales will give a short-term perspective of profitability because sales are annual flows. On the other hand, the return on assets will give us long-term

perspective of profitability. In this study, ratio of Return on Capital Employed is used as dependent variable in the specified model.

Specification of Profitability Model

The goal of a linear regression model is to identify a linear relationship between one dependent variable and one or more independent variables. The dependent variable is therefore a linear function of a series of independent variables. In this study a panel data regression model is applied to determine the profitability of selected companies in India.

The study considered the following regression model.

$$Y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8$$

Where, Y – Dependent Variable – Return on Capital Employed

B₀ – Constant

B₁..... b₈ – Regression Coefficients

X₁ – Current Ratio (CR)

X₂ – Quick Ratio (QR)

X₃ – Debt Equity Ratio (DE)

X₄ – Interest Coverage Ratio (ICR)

X₅- Debtors' Turnover Ratio (DTR)

X₆ – Inventory Turnover Ratio (ITR)

X₇ – Working Capital Turnover Ratio (WCTR)

X₈ – Operating Cost Ratio (OPR)

To measure the relationship between the profitability of selected financial ratios, ROCE is used as measurement of profitability whereas the selected financial ratios for liquidity, working capital and profitability ratios are CR, QR, DE, ICR, DTR, ITR, WCTR and OPR, Pearson correlation analysis is constructed to determine the profitability of the firms.

KSL INDUSTRIES LTD

The results of regression model are used in this analysis indicates the factors that determines the profitability of the KSL Industries Ltd as represented in Table1.1. The multiple correlation coefficients between the dependent and independent variables are taken into consideration are found to be 0.945 which reveals that the profitability has highly influenced by all the independent variables under the present study. Adjusted R square is highest in this model for 0.749 which suggests that 74.9 percent impact on ROCE is explained by these independent variables. Specifically, the profitability is positively associated with CR and WCTR and the remaining other variables are negatively associated with impact of profitability. Moreover, the F value is significant at 0.019 level (p<0.05) and the Durban-Watson is 2.778 which suggests that there is a problem of auto correlation.

TABLE 1.1: MULTIPLE REGRESSION ANALYSIS OF KSL INDUSTRIES LTD

Variables	Regression Co-efficient	Standard Error	t' Value	Sig. t
Intercept	135.794	43.473	3.124	0.020
CR	1.102	1.280	0.861	0.422
QR	-1.956	2.118	-0.923	0.391
DE	-11.843	2.885	-4.104	0.006
ICR	-0.230	0.702	-0.328	0.754
DTR	-13.221	10.139	-1.304	0.240
ITR	-0.453	0.718	-0.632	0.551
WCTR	0.010	0.210	0.047	0.964
OPR	-1.272	0.426	-2.985	0.024
Multiple R	0.945	Standard Error	5.411	Durban Watson Test = 2.778
R Square	0.892	F-ratio	6.223	
Adjusted R2	0.749	Sig. F	0.019	

Note: Dependent Variable ROCE

Source: Computed from annual reports

Bombay Dyeing Co Ltd

The results of regression model are used in this analysis indicating the factors that determining the profitability of the Bombay Dyeing Co Ltd is represented in Table 1.2. The multiple correlation coefficients between the dependent and independent variables are taken into consideration are found to be 0.966 which reveals that the profitability has highly influenced by all the independent variables under the study. Adjusted R square is highest in this model for 0.842 which suggests that 84.2 percent impact on ROCE is explained by these independent variables. Specifically, the profitability is positively associated with CR, ICR, DTR, ITR and WCTR and the remaining other variables are negatively associated with impact of profitability. Moreover, the F value is significant at 0.005 level ($p < 0.05$) and the Durban-Watson is 1.729 which suggests that there is a problem of auto correlation.

TABLE 1.2: MULTIPLE REGRESSION ANALYSIS OF BOMBAY DYEING CO LTD

Variables	Regression Co-efficient	Standard Error	t' Value	Sig. T
Intercept	-24.174	99.324	-0.243	0.816
CR	40.885	17.637	2.318	0.060
QR	-49.417	32.497	-1.521	0.179
DE	-12.447	2.664	-4.673	0.003
ICR	6.610	7.030	0.940	0.383
DTR	189.327	98.021	1.931	0.102
ITR	9.955	2.408	4.134	0.006
WCTR	0.187	1.566	0.119	0.909
OPR	-0.842	1.122	-0.751	0.481
Multiple R	0.966	Standard Error	12.952	Durban Watson Test = 1.729
R Square	0.932	F-ratio	10.335	
Adjusted R2	0.842	Sig. F	0.005	

Note: Dependent Variable ROCE

Source: Computed from annual reports

SKumars Nationwide Ltd

The results of regression model are used in this analysis indicating the factors that determining the profitability of the SKumars Nationwide Ltd is represented in Table 1.3. The multiple correlation coefficients between the dependent and independent variables are taken into consideration are found to be 0.935 which reveals that the profitability has highly influenced by all the independent variables under the study. Adjusted R square is highest in this model for 0.706 which suggests that 70.6 percentage impacts on ROCE are explained by these independent variables. Specifically, the profitability is positively associated with QR, DE, and WCTR and the remaining other variables are negatively associated with impact of profitability. Moreover, the F value is significant at 0.030 level ($p < 0.05$) and the Durban-Watson is 1.730 which suggests that there is a problem of auto correlation.

TABLE 1.3: MULTIPLE REGRESSION ANALYSIS OF SKUMARS NATIONWIDE LTD

Variables	Regression Co-efficient	Standard Error	t' Value	Sig. T
Intercept	197.390	135.897	1.453	0.197
CR	-33.377	22.522	-1.482	0.189
QR	81.548	40.455	2.016	0.090
DE	5.175	5.019	1.031	0.342
ICR	-0.108	2.176	-0.050	0.962
DTR	-284.614	178.297	-1.596	0.162
ITR	-22.675	47.921	-0.473	0.653
WCTR	33.837	67.912	0.498	0.636
OPR	-1.826	0.983	-1.857	0.113
Multiple R	0.935	Standard Error	16.198	Durban Watson Test = 1.730
R Square	0.874	F-ratio	5.204	
Adjusted R2	0.706	Sig. F	0.030	

Note: Dependent Variable ROCE

Source: Computed from annual reports

Raymond Ltd

The results of regression model are used in this analysis indicating the factors that determining the profitability of the Raymond Ltd is represented in Table 1.4. The multiple correlation coefficients between the dependent and independent variables are taken into consideration are found to be 0.962 which reveals that the profitability has highly influenced by all the independent variables under the study. Adjusted R square is highest in this model for 0.828 which suggests that 82.8 percent impact on ROCE is explained by these independent variables. Specifically, the profitability is positively associated with CR, QR, DE, ICR, DTR and WCTR and the remaining other variables are negatively associated with impact of profitability. Moreover, the F value is significant at 0.007 level ($p < 0.05$) and the Durban-Watson is 1.491 which suggests that there is a problem of auto correlation.

TABLE 1.4: MULTIPLE REGRESSION ANALYSIS OF RAYMOND LTD

Variables	Regression Co-efficient	Standard Error	t' Value	Sig. t
Intercept	-152.949	69.402	-2.204	0.070
CR	6.882	30.774	0.224	0.830
QR	69.924	47.354	1.477	0.190
DE	-19.169	9.830	-1.950	0.099
ICR	2.172	1.431	1.518	0.180
DTR	50.751	78.949	0.643	0.544
ITR	-7.947	10.529	-0.755	0.479
WCTR	24.932	11.221	2.222	0.068
OPR	-0.024	0.437	-0.055	0.958
Multiple R	0.962	Standard Error	5.377	Durban Watson Test = 1.491
R Square	0.926	F-ratio	9.422	
Adjusted R2	0.828	Sig. F	0.007	

Note: Dependent Variable ROCE

Source: Computed from annual reports

Vardhaman Textiles Ltd

The results of regression model are used in this analysis indicating the factors that determining the profitability of the Vardhaman Textiles Ltd is represented in Table 1.5. The multiple correlation coefficients between the dependent and independent variables are taken into consideration are found to be 0.943 which reveals that the profitability has highly influenced by all the independent variables under the study. Adjusted R square is higher in this model for 0.741 which suggests that 74.1 percent impact on ROCE is explained by these independent variables. Specifically, the profitability is positively associated with CR, DE, ICR, DTR and ITR and the remaining other variables are negatively associated with impact of profitability. Moreover, the F value is significant at 0.021 level ($p < 0.05$) and the Durban-Watson is 1.037 which suggests that there is a problem of the auto correlation.

TABLE 1.5: MULTIPLE REGRESSION ANALYSIS OF VARDHAMAN TEXTILES LTD

Variables	Regression Co-efficient	Standard Error	t' Value	Sig. T
Intercept	60.548	69.797	0.867	0.419
CR	8.356	5.239	1.595	0.162
QR	-16.523	29.781	-0.555	0.599
DE	7.224	3.564	2.027	0.089
ICR	2.164	0.655	3.303	0.016
DTR	20.108	115.245	0.174	0.867
ITR	7.071	12.914	0.548	0.604
WCTR	-1.306	12.007	-0.109	0.917
OPR	-1.082	0.439	-2.464	0.049
Multiple R	0.943	Standard Error	2.391	Durban Watson Test = 1.037
R Square	0.889	F-ratio	6.019	
Adjusted R2	0.741	Sig. F	0.021	

Note: Dependent Variable ROCE

Source: Computed from annual reports

Arvind Ltd

The results of regression model are used in this analysis indicating the factors that determining the profitability of the Arvind Ltd is represented in Table 1.6. The multiple correlation coefficients between the dependent and independent variables are taken into consideration are found to be 0.999 which reveals that the profitability has highly influenced by all the independent variables under the study. Adjusted R square is highest in this model for 0.996 which suggests that 99.6 percent impact on ROCE is explained by these independent variables. Specifically, the profitability is negatively associated with CR, DE, DTR, ITR, WCTR and OPR and the remaining other variables are positively associated with impact of profitability. Moreover, the F value is significant at 0.000 level ($p < 0.05$) and the Durban-Watson is 2.003 which suggests that there is no serious problems of auto correlation.

TABLE 1.6: MULTIPLE REGRESSION ANALYSIS OF ARVIND LTD

Variables	Regression Co-efficient	Standard Error	t' Value	Sig. t
Intercept	78.343	41.218	1.901	0.106
CR	-8.808	4.600	-1.915	0.104
QR	8.582	7.022	1.222	0.267
DE	-23.418	1.532	-15.281	0.000
ICR	5.515	2.731	2.019	0.090
DTR	-24.961	33.843	-0.738	0.489
ITR	-3.641	2.273	-1.602	0.160
WCTR	-0.038	0.306	-0.125	0.905
OPR	-0.195	0.355	-0.551	0.602
Multiple R	0.999	Standard Error	3.461	Durban Watson Test = 2.003
R Square	0.998	F-ratio	481.658	
Adjusted R2	0.996	Sig. F	0.000	

Note: Dependent Variable ROCE

Source: Computed from annual reports

National Textiles Co Ltd

The results of regression model are used in this analysis indicates the factors that determines the profitability of the National Textiles Co Ltd are represented in Table 1.7. The multiple correlation coefficients between the ROCE and the selected independent variables are taken together into consideration are found to be 0.591, which reveals that the profitability is highly influenced by all the CR, QR and DTR. It is also evident that the value of R squares that 0.453 percent variation in ROCE. QR, DTR and WCTR have positive impact of profitability. The model adjusted R square is 97.6 percent with an F-Value of 0.136 which is insignificant ($p > 0.05$). The Durban Watson statistics is 1.546 which suggests that there is a problem of auto correlation.

TABLE 1.7: MULTIPLE REGRESSION ANALYSIS OF NATIONAL TEXTILES CO LTD

Variables	Regression Coefficient	Standard Error	t' Value	Sig. t
Intercept	1477.241	2227.450	0.663	0.532
CR	-4662.841	16136.148	-0.289	0.782
QR	4621.830	16096.305	0.287	0.784
DE	-1.235	7.547	-0.164	0.875
ICR	-45.955	391.557	-0.117	0.910
DTR	465.851	1070.082	0.435	0.679
ITR	-62.834	139.661	-0.450	0.669
WCTR	14.292	30.353	0.471	0.654
OPR	-1.622	3.148	-0.515	0.625
Multiple R	0.591	Standard Error	97.788	Durban Watson Test = 1.546
R Square	0.453	F-ratio	0.136	
Adjusted R2	0.976	Sig. F	0.994	

Note: Dependent Variable ROCE

Source: Computed from annual reports

Conclusion and Recommendation

The study has analyzed determining the profitability of textile industry in India. Some of the important ratios were used to measure the financial performance of these selected companies. It is found from the analysis of the data that profitability in terms of profit margin is significantly and affected by the decline in days in accounts receivable, days in accounts payable and Cash conversion cycle in textile firms. The profitability position of the textile industries has highly affected during study period. The Operating Profit position is not found well due to uncontrolled indirect expenses and the overall position of the Textile industries is not satisfactory. Overall performance and effectiveness of the Textile industries are not satisfactory due to ineffective in profitability. Though the sample units are large in size and have invested in larger amount in total assets it is incurring losses. There has been a positive relationship between the size of the firm and profitability. Hence, the firm can try to attain economical size of operation to enhance the profitability.

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