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Conceptual Study of Productivity and Profitability with respect to Textile

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Abstract:
In this Research paper, Researcher going to discuss about working capital and liquidity of textile Industry. From this study we can know company's actual position. Researcher has taken 2 leading textile companies for this study. Financial data of Arvind Limited and Raymond Limited has been studied for the year 2012-13 to 2016-17. 7 Financial ratios has been calculated for each of these two companies to study their financial position and do comparison of financial position between these two textile companies

Keywords: *Textile, Working Capital, Liquidity, Financial ratios*

1. Introduction

India is one of the largest producers of the Textiles. After Agriculture second producer in the world. So, it is pillars of Indian economy. Huge employment for both skilled and unskilled labour in Textiles. India has been making cotton cloth since time immemorial. The Textile companies can be broadly classified into two categories, the organized mill sector and the unorganized decentralized sector. The organized sector of the Textile companies represents the companies. It could be a spinning mill or a composite mill. Composite mill is one where the spinning weaving and processing facilities are carried out less than one roof. The decentralized sector is engaged mainly in the weaving activity, which makes it heavily dependent on the organized sector for their yarn requirements. This decentralized sector is comprised of the three major segments viz., power loom, handloom and hosiery. In addition to the above, there are readymade garments, khadi as well as carpet manufacturing units in the decentralized sector.

2. Definition

A Textile company for the purpose of restructuring scheme define as "whose business includes yarn spun on spinning systems, weaving, knitting, processing, text rising, mad-ups, readymade garmenting and composite milling operations in the organized sector.

3. Benefits of Textile

- An Independent and self-reliant companies;
- Large and potential domestic and international market;
- Abundant Raw Material availability that helps companies to control costs and
- Reduces the lead-time across the operation;
- Availability of low cost and skilled manpower provides competitive Advantage to companies;

4. Meaning of productivity

Productivity saw the relationship between input used and output achieved, it is evaluate basic two aspect first is more input than necessary have been used to produced output and second is best mix of input has been used to produce output According to Dr. Chauhan "Productivity is at the heart of economic growth and development. It is focal point in business and economic matters all over the world.

Formula of Productivity= Output/Input
Output is an important variable. It may be presented in physical units or in monetary values. Generally output is measured with the help of an index of physical production.

Input comprises of a number of diverse factors. labour, material, overheads, fuel, and power. These factors constitute the main inputs of an industry.
(a) Total Productivity Index = Total output / All Input Factors
(b) Total factor Productivity Index = Net output/Total factor Input
(c) Partial Productivity Index = output / One factor of Input
Net output = Output- Goods and services.

5. Meaning of profitability

The excess of output over the input factors expressed in monetary terms is called Profit .In simple meaning is excess of f the income over the cost. Actually the meaning of profit differs according to use and purpose of the figure According to Gibson and Boyer "Profitability is the ability of the firm to generate earning". Profitability in any one company or part or industry, mainly depends on such factors .i.e. raw materials, labour, capacity utilization of product and efficiency. The profitability ratio shows the combined effects of liquidity, asset management on results.

6. Literature review

(1) Renu Verma (2005) reviewed the impact of liquidity ratios on profitability. It showed both negative and positive association. Out of seven liquidity ratios, five ratios namely current ratio, acid test ratio, current assets to total assets ratio and inventory resource ratio showed negative association with profitability ratio. The remaining three ratios, namely working capital turnover ratio, receivable turnover ratio and the cash turnover ratio showed positive association with the profitability ratio. The profitability of the TISCO Ltd is significantly and positively influenced by inventory ratio, receivable turnover ratio and cash turnover ratio.
("Performance of Small–Scale Industries (Pre and Post Reform Period)", Udyog Pragati, 29(2). April-June, pp.35-41.)
(2) Zala (2008) this study deals with a study of productivity and financial efficiency of Textile Companies of India, which are mainly engaged in production of Textile Products. At the micro level financial efficiency refers to the efficiency with which resources are correctly allocated among competing uses at a point of time. To reduce power and fuel cost, Company should find out other alternatives for this companies. For regular supply of raw materials and the final product Infrastructure facilities require further improvement. Cost accounting and cost audit should be made mandatory for these units and cost sheet along with annual financing statement should be prepared.
(Virambhai S. Zala (2008). A Study of Productivity and Financial Efficiency of Textile Industry of India.)
(3) Kantawala (2002) confirmed that there exists a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of nonbanking financial companies. When two categories are examined against each other, then the more number of ratios are not statistically different from each other in majority of the cases except when trading in shares plus investment hoardings are compared with leasing
(Amita S. Kantawala, (2002), "Financial Performance of Non-Banking Finance Companies in India", The Indian Economic Journal, 49(1), July-September, pp.86-92)

(4) Masur A. Mulla (2002) concluded that the textile mills under study were just on the average of financial collapse. The financial health of the mills was never in the too healthy zone during the study period. The position of its performance front was very unviable and apprehensions of the total failure of the mills were inevitable and certain. The mills faced the trouble of over trading owing to the inadequate load of working capital. The negative EBIT was a cause of serious concern
(Masur A. Mulla (2002), "Use of „Z" Score Analysis for Evaluation of Financial Health of Textile Mills-A Case Study", Abhigyan, 19(4), January-March, pp.37-41)

7. Research Objective

1. To study the textile industry of India
2. To study the working capital of selected textile companies of India
3. To measure the financial soundness of the company by analyzing various ratios

8. Research Methodology

8.1 Sample Size

Researcher has selected Sample of 2 textile companies by way of random sample selection and by using lottery method.

8.2 Data Analysis

Tables, diagrams and statistical results derived with the help of statistical computer software called SPSS and Microsoft Excel tools.

ARVIND LIMITED	2017	2016	2015	2014	2013
Current Ratio	0.83	0.85	0.75	0.67	0.76
Quick Ratio	1.56	1.59	1.34	1.11	1.35
Debt Equity Ratio	0.97	0.95	0.97	0.93	1.07
Inventory Turnover Ratio	5.02	5.07	4.32	4.8	3.84
Debtors Turnover Ratio	10.65	9.93	8.92	7.21	5.43
Fixed Assets Turnover Ratio	1.2	1.18	1	0.99	0.86
Total Assets Turnover Ratio	1.03	1.04	0.95	1.05	0.87
RAYMOND LTD	**2017**	**2016**	**2015**	**2014**	**2013**
Current Ratio	1.2	1.18	0.83	0.95	1.25
Quick Ratio	1.21	1.27	0.81	0.78	1.15
Debt Equity Ratio	0.93	1.13	0.98	0.91	1.18
Inventory Turnover Ratio	4.59	3.96	4.04	4.42	3.79
Debtors Turnover Ratio	5.04	4.87	5.03	5.28	4.86
Fixed Assets Turnover Ratio	1.46	1.23	1.1	1.04	0.88
Total Assets Turnover Ratio	1.17	0.93	1	0.9	0.65

9. Findings

Based on above table and graph it can be concluded that Raymond limited has higher current ratio than Arvind limited throughout all 5 years taken under study, it indicates that Raymond limited does not face any problem in meeting its increased working capital requirement over a long period. On an average Raymond limited has higher Debt Equity ratio compare to Arvind limited which indicates Raymond limited has risky financial position while lower ratio indicates safe financial position. Arving limited has much higher ratio value than Raymond limited. Arvind limited has higher number of average debtors (receivable) are turned over during a year compare to Raymond limited. Raymond limited has higher ratio value compare to Arvind limited, which indicates that Raymond limited has utilized its fixed assets more efficient way than Arvind limited to generate revenue. Arvind limited has higher ratio value compare to Raymond limited, which indicates many times inventory of Arvind limited is sold and replaced over a period. Arvind limited has higher ratio value compare to Raymond limited which indicates that Arvind limited has more ability to meet its short-term obligations with its most liquid assets. Arvind Limited has higher ratio value compare to Raymond limited. Arvind limited utilized its assets more efficient way compare to Raymond limited.

10. Conclusion

Efficient management of working capital is essential in maintaining liquidity, solvency and profitability of a business organization, irrespective of its size and nature of operations. The management of working capital draws the close attention of finance managers as it involves frequent and dynamic decision-making to determine "the size of" current assets required for uninterrupted flow of activities of a business. Sufficient doses of working capital is required to facilitate the procurement of inputs, to hire manpower, create value addition through transformation of inputs into output, carrying inputs and outputs for a better market time. Further, a series of market facilitating infrastructure such as warehouse, cold storage, transport, packaging and extension of credit time to customers are to be financed before the product realizes the investment made in it.

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