Comparative Study of Ratio Analysis of Selected Textile Companies of India

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Abstract:

The Indian textile industry is one of the largest in the world with a massive raw material and textiles manufacturing base. Our economy is largely dependent on the textile manufacturing and trade in addition to other major industries. About 27% of the foreign exchange earnings are on account of export of textiles and clothing alone. The textiles and clothing sector contributes about 14% to the industrial production and 3% to the gross domestic product of the country. Around 8% of the total excise revenue collection is contributed by the textile industry. So much so, the textile industry accounts for as large as 21% of the total employment generated in the economy. Around 35 million people are directly employed in the textile manufacturing activities. Indirect employment including the manpower engaged in agricultural based raw-material production like cotton and related trade and handling could be stated to be around another 60 million.

Keywords: *Ratio Analysis, Textile Industry*

1. Introduction

A textile is the largest single industry in India (and amongst the biggest in the world). It provides direct employment to around 20 million people. Textile and clothing exports account for one-third of the total value of exports from the country. There are 1,227 textile mills with a spinning capacity of about 29 million spindles. While yarn is mostly produced in the mills, fabrics are produced in the powerloom and handloom sectors as well. The Indian textile industry continues to be predominantly based on cotton, with about 65% of raw materials consumed being cotton. The yearly output of cotton cloth was about 12.8 billion. The manufacture of jute products (1.1 million metric tons) ranks next in importance to cotton weaving. Textile is one of India's oldest industries and has a formidable presence in the national economy in as much as it contributes to about 14 percent of manufacturing value-addition, accounts for around one-third of our gross export earnings and provides gainful employment to millions of people. They include cotton and jute growers, artisans and weavers who are engaged in the organised as well as decentralised and household sectors spread across the entire country.

2. Overview of Research Unit

2.1 Reliance textile industry

Reliance Textiles is a sister company of Asco Textile Group that was established in 1950. As a small family business, the company, at its infancy period, traded only printed fabric to various international markets.Within a short period of time, the group had established a strong business links, with trading partners from countries like Saudi Arabia, Dubai, and with other Gulf countries. By 1960 the company was already manufacturing textile products for export market and extended business to other countries. Subsequently, it made significant inroads into European and North American markets, including UK, France, Spain, Italy, Germany and USA.

Reliance's Manufacturing Division at Naroda, Ahmadabad is one of the largest and most modern textile complexes in the world. The Company's flagship brand VIMAL is one of the most trusted brands of premium textiles in the country. Main growth drivers for VIMAL are retail presence across India, innovation and focus on premium products and men's formal wear.

2.2 Raymond Ltd.

Years ago, when the Singhania family was building, consolidating and expanding its various businesses in Kanpur (India), one Mr. Wadia was in a similar manner setting up a small woollen mill in the area around Thane creek, 40 km away from Mumbai, India. The Sassoon's, a well-known industrialist family of Mumbai, soon acquired this mill and renamed it as The Raymond Woollen Mills. Acquisition of The Raymond Woollen Mills in the year 1925.

When the grandson of Lala Juggilal, Lala Kailashpat Singhania took over Raymond in 1944, the mill primarily made cheap and coarse woollen blankets, and modest quantities of low priced woollen Fabrics. The vision and foresight of Mr. Kailashpat Singhania greatly helped in establishing the J.K. Group's presence in the western region. Under his able stewardship, Raymond embarked upon a gradual phase of technological up gradation and modernization.

2.3 Bombay Dyeing & Mfg. Co. Ltd.

The Bombay Dyeing & Mfg. Co. Ltd., established 1879 is the flagship company of the Wadia Group, engaged mainly into the business of Textiles. Bombay Dyeing is one of India's largest producers of textiles. From a small cotton yarn operating unit established by Nowrosjee Wadia in 1879, Bombay Dyeing has now grown to be one of the most powerful brands in the country. With a legacy of over a hundred years, time today stands testimony to the company's consistent growth and stability.

2.4 Grasim Bhiwami Textile Ltd.

Grasim Bhiwani Textiles Ltd is a subsidiary of Grasim Industries Ltd having strong presence in manufacturing of Polyester Viscose fabric catering the market under brands GRASIM & GRAVIERA as also exporting it's fabric to various reputed brands. The company has its manufacturing facility in Bhiwani Haryana and its Marketing & Sales Office at New Delhi. The company is spread across the geography through a large network of dealers , agents and retail outlets.

The company utilizes strong manufacturing facilities comprising of Fiber Dying, Yarn Spinning, Weaving, Processing and Folding with state-of-the-art machines, processes and professional environment.

The company also has strong presence in International market catering to the fabric need of International brands. The company has strong Design and Development team which conceptualizes and develops designs as per fashion standards and market needs.

2.5 Alok Industries Ltd.

Alok was established in 1986 as a private limited company, with our first polyester text rising plant being set up in 1989. We became a public limited company in 1993. Over the years, we have expanded into weaving, knitting, processing, home textiles and garments. And to ensure quality and cost efficiencies we have integrated backward into cotton spinning and manufacturing partially oriented yarn through the continuous polymerization route. We also provide embroidered products through Grabal Alok Impex Ltd., our associate company.

3. Review of Literature

Rakesh and Kulkarni (2012) analyzed the Gujarat textile industry working capital evaluation on selected five company for the eleven years and performed ratio analysis, descriptive statistics etc. The study concluded with all the company financial performance with sound effective as well as current and quick ratio, current asset on total asset, sales, turnover etc. are analyzed with the help of hypothesis and used ANOVA. In this research also researcher followed this attributes. Zahid and nanik (2011) concludes the overall performance of the textile sector was adversely affected by crisis through analysis of income statement, debt payment ability, management and inventory sales, receivables, productivity, fixed assets, etc.

Nusrat and Assocham (2008) analyzed the performance of sector analysis on 28 textile companies from BSE with the attributes of net sales, net profit, interest cost, raw material, power and fuel cost. Virambhai (2010) textile industry productivity and financial efficiency focused on industry's current position and its performance. It concluded the company/management should try to increase the production, minimize the cost and operating expenses, exercise proper control on liquidity position, reduction of power, fuel, borrowing funds, overheads, interest burden, etc. Ajay Kumar (2011) discussed on Indian textile industry analysis with inflation, textile production, sales, Income, PAT, Income, etc. and found the export and import performance in the crisis period.

4. Research Methodology

The present research paper is mainly based on secondary data obtained from the annual reports of the sample units. To supplement the data different publications, various books, journals and different websites related in textile industry have been used for better reliability

5. Tools & Techniques of Analysis

The collected data are daily edited, classified analyzed types of relevant accounting ratios; statically techniques. The data are presented through simple classification and with the help of percentage, average and the hypothesis are tested at 5% level of significance of employ in F Test.

6. Hypothesis of the Study

1. Profit before depreciation, interest and tax to gross sales of selected units are same during the period of study.
2. Profit after tax to gross sales ratio of all units are same during the period of study.
3. PBDIT to net sales ratio of all units are same during the period of study.
4. PAT to net sales ratio of all units are same during the period of study.

6.1 PBDIT to gross sales ratio

This ratio shows the relationship between gross profits and sales. The first profitability ratio in relation to sales is the gross profit margin. PBDIT to gross sales reflects the efficiency with which management produces each unit of product. This ratio indicates the average spread between the cost of goods sold and the sales revenue. This ratio show profits relative to sales after the deduction of production costs, and indicate the relation between production costs and selling price.

6.1.1 Formula

Gross profit margin=PBDIT/gross sales x100

Table 1 PBDIT to Gross Sales Ratio

Year	Reliance textile ind	Raymond Ltd	Bombay dyeing & Mfg. Co. Ltd	Grasim Bhiwani textile ltd	Alok ind.ltd	Overall trend
2008	16.67%	12.08%	7.36%	15.21%	25.13%	15.29
2009	17.67%	-15.00%	-22.56%	11.71%	27.42%	19.24
2010	16.05%	9.5%	7.3%	16.74%	29.11%	15.74
2011	15.67%	-3.37%	5.00%	14.32%	27.56%	11.84
2012	11.03%	9.96%	6.00%	11.86%	24.67%	12.76
Average	15.47	2.63	3.1	13.97	26.78	

Above table indicates the PBDIT to gross sales ratio of textile industry. It indicates the relationship between production cost and selling price. The data was for five years. For reliance industry it was mixed trend. In 2008 it was 16.67%,in 2009 it was 17.67%,in 2010 it was 16.05%,in year 2011 it was 15.67,and in year 2012 it was 15.47%.raymond ltd ratio shows the uptown situation during year 2008 to 2012.in Bombay dyeing Mfg. co. Ltd it was down in year 2009 and it was -22.56%then in year 2010 it was raise to 7.3%.and again in year 2011 it was down 5% and in year 2012 it was 6%.biwani textile ltd it was mixed trend. It neither more down or nor more increase during year2008 to 2012.in Alok ltd it was 25.13%,27.42%,29.11%,27.56% and 24.67% respective year of 2008,2009,2010,2011 and 2012.among all the five companies the highest average was Alok ltd and it was 26.78.and in overall trend it was highest in year 2009 and it was 19.24.

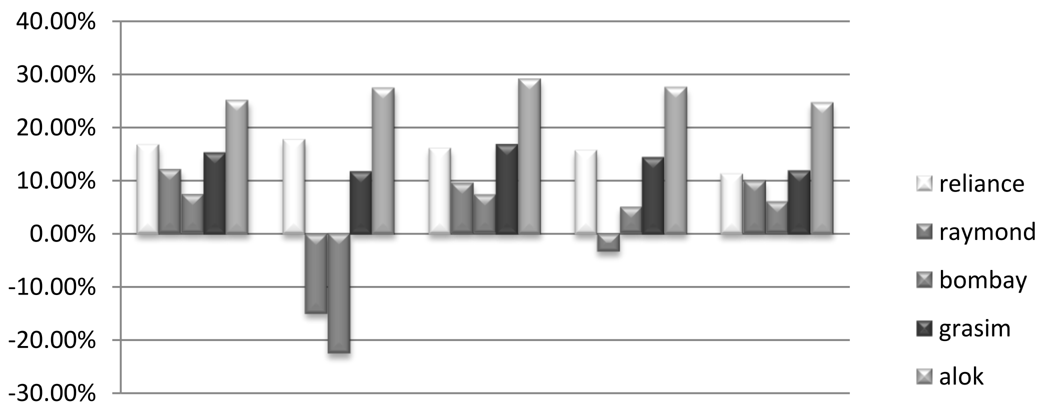

Chart 1 PBDT to Gross Sales

This graph shows that the Raymond ltd and Bombay ltd have decreased their profitability in the year 2009 compared to 2008it may be because of less sales or higher cost of goods. It is a very dangerous position for the unit. A financial manager must detect the reason for falling of gross profit margin ratio. In reliance it was good in year 2008 and it increase in year 2009 and then it decreeing Grasim it was stable not more increase or not more decrese. Alok's shows the better position in all five years .thus Alok is the better position as compare to other units. Overall trend was highest in year 2009 and it was 19.24.and it was lowest in year 2011 and it was 11.84.

Table 2 ANOVA for PBDIT to Gross Sales

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
BSS	2257.356	4	564.3389	8.893416	0.00027	2.866081
WSS	1269.116	20	63.45581			
TSS	3526.472	24				

Above table indicates the calculate value of "F". The calculated value of "F" is less than the table value of 5% levels of significance which is 2.866.it indicates that the null hypothesis is accepted and alternate hypothesis will rejected. It indicates that there is no significance difference in the PBDIT ratio in the units undertaken for the study for the period of the study.

6.2 PAT to Gross Sales

Net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. The net profit margin ratio is measured by dividing profit after tax by sales.

Net profit margin ratio establishes a relationship between net profit and gross sales and indicates management's efficiency in manufacturing, administering and selling the products. This ratio is overall measure of the firm's ability to turn each rupee sales into net profit. If the net profit is inadequate, the firm will fail to achieve satisfactory return on shareholders' funds.

6.2.1 Formula

Net profit margin=profit after tax (PAT)/gross sales x 100

Table 3 PAT to Gross Sales

Year	**Reliance**	**Raymond ltd**	**Bombay dyeing mfg.co ltd**	**Grasim biwani ltd**	**Alok pvt ltd**	**Overall trend**
2008	9.8%	5.39%	2.3%	5.83%	8.02%	6.27
2009	10.8%	-19.37%	-17.75%	2.74%	6.28%	-3.46
2010	7.7%	1.85%	1.62%	5.68%	5.66%	4.50
2011	7.7%	-6.7%	1.2%	5.67%	4.63%	2.5
2012	5.5%	3.00%	2.6%	3.9%	0.93%	3.19
Average	8.3	-3.17	-2.006	4.76%	5.10	

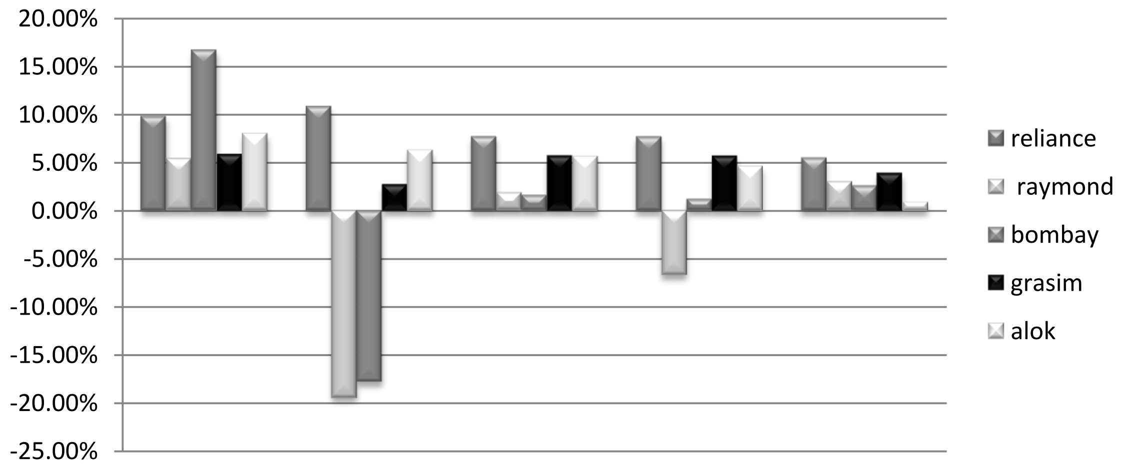

Chart 2 PAT to Gross Sales

Above table and graph indicates the net profit to sales ratio of five years i.e.2008, 2009, 2010, 2011 and 2012. This figure indicates that Raymond and Bombay having minus net profit margin ratio in year 2009 .it may be because of falling selling price, rising costs of production or declining demand. Thus, the both companies earning efficiency is not good. All over units have mixed trend. In Alok ltd it was 8.02%,6.28%,5.66%,4.63%and 0.93%in year 2008,2009,2010,2011and 2012 respectively.

Table 4 ANOVA for PAT to Gross Sales

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
BSS	489.2965	4	122.3241	3.156482	0.036491	2.866081
WSS	775.0662	20	38.75331			
TSS	1264.363	24				

Above table indicates the calculate value of “F”.The calculated value of “F” is0.036which is less than the table value of 5% levels of significance which is 2.866.it indicates that the null hypothesis is accepted and alternate hypothesis will rejected. It indicates that there is no significance difference in the PAT ratio in the units undertaken for the study for the period of the study (i.e. five years).all the units have different performance in relation to sales for that period.

6.3 PBDIT to Net Sales

Gross profit means PBDIT Gross profit ratio indicates a higher cost of goods sold. It shows whether the selling prices are adequate or not. It also indicates the extent to which selling prices are adequate or not. It also indicates the extent to which selling prices may be reduced without resulting in losses. It is calculated as follows.

6.3.1 Formula

Gross profit Ratio=Gross Profit/net sales x100

Table 5 PBDIT to Net Sales

	reliance	Raymond	Bombay	Alok	Grasim Bhiwani	overall trend
2008	17.34%	12.21%	7.60%	25.83%	16.04%	15.81%
2009	18.22%	-15.16%	-23.50%	27.74%	12.24%	3.91%
2010	16.74%	9.60%	7.62%	29.59%	17.29%	12.71%
2011	16.33%	-3.37%	5.29%	28.03%	14.89%	12.23%
2012	11.63%	9.28%	6.11%	25.26%	12.46%	12.95%
Average	16.05%	12.56%	0.62%	27.29%	14.58%	

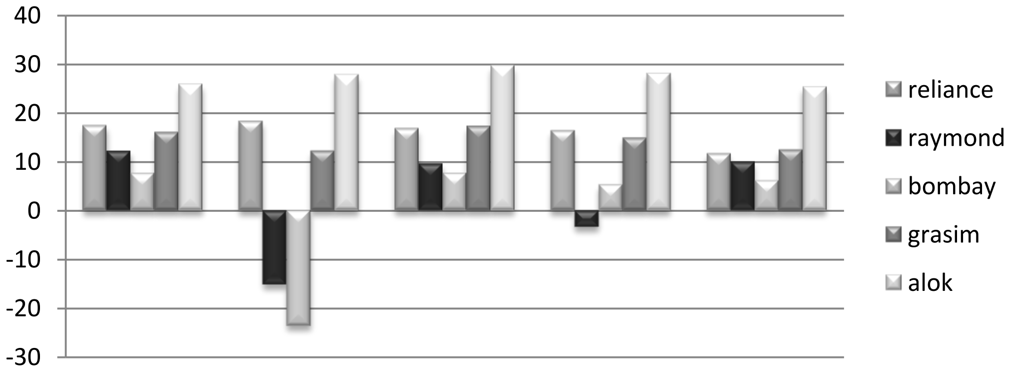

Chart 3 PBDIT to Net Sales

The table and graph shows the PBIDT to gross sales ratio of five years i.e. 2008, 2009, 2010, 2011, 2012 in year 2009 the Raymond ltd and Bombay having minus PBIDT to net sales. Raymond also suffers loss in year 2011 also. After that it increases the 9.28%.above all five companies the highest ratio was alok's Ltd. Grasim having stable ratio. Reliance was having mixed trend.

Table 6 ANOVA PBDIT to Net Sales

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
BSS	2367.139	4	591.7847	8.856319	0.000277	2.866081
WSS	1336.412	20	66.82062			
TSS	3703.551	24				

Above table indicates the calculate value of "F". The calculated value of "F" is0.000277which is less than the table value of 5% levels of significance which is 2.866.it indicates that the null hypothesis is accepted and alternate hypothesis will rejected. It indicates that there is no significance difference in the PBDIT ratio in the units undertaken for the study for the period of the study (i.e. five years).all the units have different performance in relation to sales for that period.

6.4 PAT to Net Sales

This is the ratio of net profit to net sales. Here profit is calculated by deducting taxes, interest and depreciation from gross profit. It is the overall measure of a firm's ability to turn each rupee of sales into profit.

6.4.1. Formula

Net profit ratio=PAT/net sales x 100.

Table 7 PAT to Net Sales

Year	reliance	Raymond	Bombay	Grasim Bhiwani	Alok	overall trend
2008	10.20%	5.45%	2.40%	6.15%	8.25%	6.49%
2009	11.10%	-19.56%	-18.49%	2.87%	6.35%	-3.55%
2010	8.00%	1.86%	1.69%	5.87%	5.75%	4.63%
2011	7.90%	-6.70%	1.28%	5.89%	4.71%	2.62%
2012	5.60%	3.09%	2.66%	4.09%	0.95%	3.28%
Average	8.56%	-3.17%	-2.09%	4.97%	5.20%	

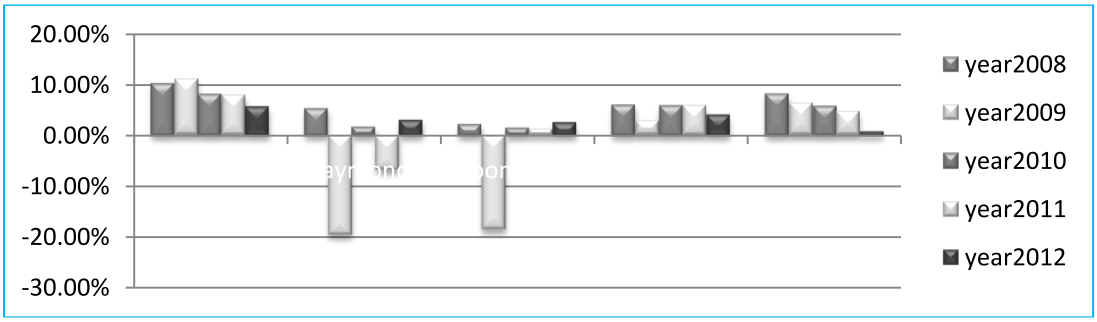

Chart 4 PAT to Net Sales

This table and graph shows the trend of net profit to net sales. The data was for five year. In year the NAP to net sales ratio of reliance company is10.2,11.1,8,7.9and 5.6respectively.raymond and Bombay having negative ratio in year 2009.it shows that it occur loss in the year 2009due to less sales or high cost. Overall trend shows that in year2008 it was high i.e.32.45.and lowest in year 2011 i.e.13.08.among all five sample units the highest average was of reliance, second one was Alok with 26.01.

Table 8 ANOVA PAT to Net Sales

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
BSS	0.051607	4	0.012902	3.172584	0.035868	2.866081
WSS	0.081333	20	0.004067			
TSS	0.13294	24				

Above table indicates the calculate value of "F". The calculated value of "F" is0.036which is less than the table value of 5% levels of significance which is 2.866. It indicates that the null hypothesis is accepted and alternate hypothesis will rejected. It indicates that there is no significance difference in the PAT ratio in the units undertaken for the study for the period of the study (i.e. five years).all the units have different performance in relation to sales for that period.

7. Findings

Indian Textile Industry is one of the leading textile industries in the world. Though was predominantly unorganized industry even a few years back, but the scenario started changing after the economic liberalization of Indian economy in 1991. The opening up of economy gave the much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world.

India textile industry is one of the leading in the world. Currently it is estimated to be around US$ 52 billion and is also projected to be around US$ 115 billion by the year 2012. The current domestic market of textile in India is expected to be increased to US$ 60 billion by 2012 from the current US$ 34.6 billion. The textile export of the country was around US$ 19.14 billion in 2006-07, which saw a stiff rise to reach US$ 22.13 in 2007-08. The share of exports is also expected to increase from 4% to 7% within 2012.

Profits are the soul of the business body without which the body becomes lifeless. Finance is the heart of the business body and profit is the soul of the business body. Profits have now become a measurement test to measure financial efficiency of the business firm. Generally profits are the net surplus of revenue over the expenditure.

8. Suggestion

India contributes to about 25% share in the world trade of cotton yarn. India, the world's third-largest producer of cotton and second-largest producer of cotton yarns and textiles, is poised to play an increasingly important role in global cotton and textile markets as a result of domestic and multilateral policy reform.

Bombay and Raymond have to focus on the profitability and to improve the profitability both the company have either increased the sales or reduces the cost. By maintaining the cost and increasing the sales both the company can improve their profitability to satisfy their shareholder and stand in good position in the market.

9. Limitation

Secondary data collected for the research study is collected from the annual reports, websites and various published reports and as such finding will depend entirely on the accuracy of such data.

Financial statements are normally prepared on the concept of historical cost. They do not reflect values in terms of current cost. Thus, financial analysis on such financial statements or accounting figures would not portray the effects of price level changing over the period.

10. Conclusion

The Textile industry in India traditionally, after agriculture, is the only industry that has generated huge employment for both skilled and unskilled labor in textiles. The textile industry continues to be the second largest employment generating sector in India.

It can be concluded that the textile industry has wide scope in the international market. The industry's has to focus on their parts and quality design, quality products with the advance technology which make it easy possibility to get better international market.

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