EVALUATION OF FINANCIAL PERFORMANCE OF PRIVATE SECTOR TEXTILE UNITS IN MAHARASHTRA USING DESCRIPTIVE STATISTICS TECHNIQUES

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ABSTRACT

Indian Textile Industry is one of the leading textile industries in the world. The economic liberalization of Indian economy in 1991 gave the much needed thrust to the Indian textile industry, which has now successfully become one of the second largest in the world. There are many states like West Bengal, Tamil Nadu, Gujarat, Kerala and Maharashtra which are textile hub of the Country. Among them Maharashtra is one of the giants in the textile manufacturing and also the one to owe highest industrial outputs in the textile sector. There are abundant natural resources, skilled manpower and premiere R&D centers. Additionally bulk of raw material available is all responsible for pushing down the cost of textile industry. Due to all these favorable factors, it contributes highest FDI in the country and highest contribution to India's GDP. This industry comprises of both Public and Private sector textile units. Though it is leading textile producing state but it is struggling hard to uphold and maintain its position. Therefore, it is important to check the financial performance of Private sector textile units in Maharashtra. In the present study researcher has identified various significant ratios to evaluate financial performance of selected private textile units using descriptive statistics techniques.

KEYWORDS: Indian Textile Industry, Maharashtra's Textile Industry, Financial Performance, Descriptive Statistics

INTRODUCTION

The term Textile comes from the Latin word "Texere" meaning "to weave". The art of textile making started to develop in the Stone Age. Weaving is a craft developed initially in a very crude and under developed form with the advent of agriculture. The art of weaving yarn into fabric slowly developed from the weaving of strips into mats and baskets. (Ghosh and shukla,n.d) Today, Indian Textile Industry is one of the leading textile industries in the world. 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 second largest in the world. It plays a major role in the economy of the country as it earns about 27% of the total foreign exchange. Further, the textile industry of India contributes nearly 14% of the total industrial production and also contributes around 4% to the GDP of the country. The industry is the largest in the country in terms of employment generation. (International Trade Division, 2014)

Maharashtra and Its Textile Sector

Maharashtra has a booming economy which is based on the edifice of a strong infrastructural foundation. The state has a well balanced economic and social structure and is rich in two main industries i.e. Sugar and Textile. This state is one of the giants in the textile manufacturing and also the one to owe highest industrial outputs in the textile sector. It accounts for about 65 million kg of cotton production which is 25% of the country's total. The textile industry of the State holds a strategic importance in the country as it is the single largest employer and contributes around 27% of

India's total exports. The state contributes 10.4 per cent to the country's textile and apparels output. Also, the state accounts for 10.2 per cent of the country's employment in the sector. It produces 12 per cent of India's total production and has an installed capacity of 1.66 million spindles, equivalent to 17 per cent of the country's capacity. (Doing Business in Maharashtra, n.d)

Maharashtra is also one of the largest producers of cotton in India. Furthermore, there are abundant natural resources, skilled manpower and premiere R&D centers. Additionally bulk of raw material available is all responsible for pushing down the cost of textile industry. Due to all these favorable factors, it contributes highest FDI in the country and highest contribution to India's GDP.

Maharashtra Textile Industry basically comprises of both private as well as public textile units. Both these sectors deal in Spinning and Composite (Non SSI & SSI). In order to check the financial performance of Private sector textile units in Maharashtra, the researcher has selected four Private sector textile units deals in Spinning and Composite (Non SSI & SSI) that have greater influence on the overall economic performance of the state. For the purpose of critical financial analysis, some of the key units of private textile units in Maharashtra were selected. A brief profile of the selected textile firms of the state which deals in Spinning and Composite (Non SSI & SSI) are:

Table 1: Selected Private Textile units in Maharashtra

Company	Product Portfolio
Morarjee Textile, Mumbai Maharashtra	Plain, dobby and jacquard twill, poplin and oxford woven, dyed, printed and finished fabrics
KSL & Industries, Mumbai, Maharshtra	Cotton, fibre and textile.
Indo Count, Mumbai- Maharashtra	Manufacture of combed cotton yarn of fine counts.
Abhishek Corporation- Maharashtra	Manufacturer of 100% combed cotton yarn, spindles of compact spinning with value added facilities like Autoconer, TFOs, Singeing

Source: Government of Maharashtra, Co-operation, Marketing and Textile Department Government of Maharashtra

Review of Literature

The review of literature is being done to find out available literature in the field of financial performance analysis and also to find out the gap of such performance in private textile units in Maharashtra. The researcher has presented some of the excerpts of various studies conducted by the financial analysts in the past. Some studies are directly related and some are indirectly. The available literature has helped the researcher to find out the research gap.

Ahmed and Assocham (2008) in their research work have tried to make in-depth investigation of Indian textile industry and have considered a sample of 28 textile companies for the same. They have critically analyzed the performance of sector through analysis of 28 textile companies from BSE with the attributes of net sales, net profit, interest cost, raw material, power and fuel cost.

Mokhtarul and Wadud (2007) in their paper entitled "Sources of Productivity Growth in Australian Textile and Clothing Firms" made an effort to estimate various sources of productivity and growth in Australian textile and clothing firms. Sources of growth in Multi-Factor Productivity (MFP) were examined with growth in technical efficiency and scale effects based on estimates of stochastic frontier production functions and for output, growth have been compared with the productivity growth estimates for each of the product categories.

Krishnamurthy (2005) in her study entitled **"**Silk World-A Study relating to top silk trading countries" analyzed the factors contributing to growth of foreign trade and conducted SWOT analysis for the purpose. The researcher highlighted various threats, challenges, strength and opportunities for the promotion of trade of Indian silk industry at global level.

Mistry (2010) conducted his study on the topic "A Comparison of Financial Performance of Major Gujarat Pharma players through value added and economic value added". The study was aimed at classifying major Gujarat pharmacy players on the basis of their financial characteristic revealed by the financial statements and revealed that economic value added has positive correlation with firm size, funds of proprietors, and funds of money lenders.

Bara (2010), in his thesis titled "A Study on Liquidity management of Indian Steel Industry" made an attempt to analyze steel industry of India. The study focused at exploring the liquidity performance of steel industry in India covering period of ten years i.e. 1999-2000 to 2008-2009. Four companies namely JSWL, TS & AL, SAIL, and TSL were taken. It concluded that though liquidity is essential for working capital but the need of liquidity in order to run day-to-day business can't be over-emphasized.

Statement of the Problem

The Indian textile in general and Maharashtra's textile industry in particular has in-born strengths like availability of all types of fibres in the textile value chain, huge geographical infrastructure, recognition of India in its design capabilities, rising exports and support of the various Ministries of the Government. Even then this industry lags behind its competitors at global front and is struggling hard with some structural problems like infrastructure, fragmented industry structure, and high transaction cost affecting the global competitiveness of the industry. Therefore the question arises:

- What are the factors responsible for slower growth rate of Private sector textile units in Maharashtra?

- What is the reason behind unsatisfactory performance of private sector textile units in Maharashtra?

Keeping the above issues in mind it becomes necessary to analyze the financial performance for a comprehensive evaluation of private textile units in Maharashtra in order to find out actual problem of these sectors. The main thrust of the present study is to find out the main reason behind the suffering and losses of private textile units in Maharashtra.

Research Gap

Review of literature done above highlights that very few studies till date have been conducted to analyze financial performance of private sectors of Indian textile Industry in general and private sectors of textile units of Maharashtra in particular.

Scope of the Study

Financial analysis of private sectors of textile mills in Maharashtra is done for the period of 10 years staring from F.Y 2006-07 to F.Y 2015-16. Financial performance of the sector is measured on the basis of liquidity, solvency, turnover, profitability and expenses. For the purpose of study 4 private units of textile in Maharashtra are taken into consideration.

Importance of the Study

Private sector of this industry is unable to perform satisfactorily though they have various benefits at their side. Therefore, it is the need of the hour to investigate and find out the possible reasons for poor performance of private sector

and also figure out the causes for the slow pace of growth of textile industry in Maharashtra.

Findings of this study will be beneficial to different groups like

- Management in financial planning

- Financial projections and business forecast

- Government and policy makers

- Bankers, the other financial institutions

- Investors and other market participants

- Guide for conducting further research

Objectives of the Study

The objective of the study is to:

- To evaluate the financial performance of the Private sector textile units in Maharashtra State with the help of Profitability, liquidity, solvency and efficiency analysis.

- Draw conclusions and make recommendations for further growth & development of the sector.

Research Methodology

The research is based on secondary data. The collection of the quantitative data is done through the sources such as publish annual reports of the companies published, data from Ministry of textile, books, journals, CMIE prowess database etc.

Research Design for Financial Analysis

For the purpose of selecting textile units in private sectors a total of 65 units were identified out of which data of 45 private textile units was either not available or their data was missing for few years. Therefore out of available 20 private textile units, top 4 units were selected on the basis of Net Block of the current year.

Summary of Data Analysis, Findings and Conclusion

The main objective is to check the financial Performance of the selected Private textile units in Maharashtra. Various ratios are used for the study. The data of ten years have been analyzed with the help of E- views software. The financial performance analysis of the selected units of private textile based on liquidity, solvency, profitability, turnover and expense ratios is carried with the help of descriptive statistics analysis using four Ordinary Least Square (OLS) models..
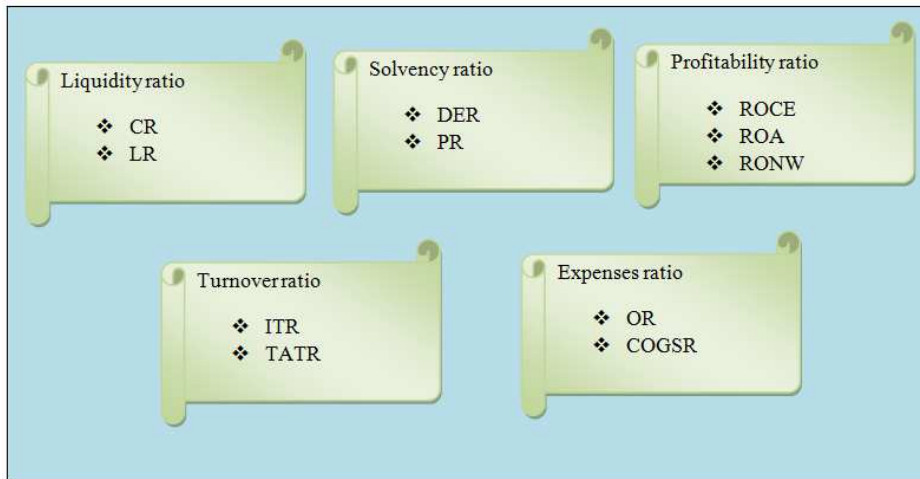
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Figure 1: List of Ratios used for the Financial Performance of Selected Private and Public Textile Units

Source: Prepared by researcher

Table 2: Descriptive Analysis of selected Private Textile Units in Maharashtra.

Descriptive statistics					
Ratios	**No. of Observation**	**Mean**	**Std. Dev.**	**Maximum**	**Minimum**
1.Profitability Ratio					
1.1 ROA	40	0.244014	6.926729	13.07639	-15.2407
1.2 ROCE	40	0.466102	11.35934	32.78686	-22.9428
1.3 RONW	40	-16.1694	65.36465	61.38278	-220.304
2. Liquidity Ratio					
2.1 CR	40	2.438249	0.742465	3.886605	0.955386
2.2 LR	40	1.816385	0.799828	3.631349	0.55829
3. Solvency Ratio					
3.1 DER	40	5.911242	4.685728	18.74413	1.64116
3.2 PR	40	0.19866	0.091418	0.375082	0.050648
4. Turnover Ratio					
4.1 STR	40	3.943475	2.0639	6.592211	0.041495
4.2 TATR	40	0.558842	0.466538	1.679944	0.010308
5. Expenses Ratio					
5.1 OER	40	9.522821	3.788507	16.65121	2.969121
5.2 COGSR	40	86.5665	28.63548	181.1131	51.53054

Source: Prepared by Author from the annual reports of selected private textile units in Maharashtra from 2006-07 to 2015-16 with the help of E-Views

Profitability Ratio

Profitability position of a company depicts its earning capacity during a specific period of time. The earning capacity of a company can be measured in two ways i.e. in terms of sales and in terms of investment. The Profitability position of selected Private textile units has been analyzed with the help of return on assets (ROA), return on capital employed (ROCE) and return on net worth (RONW) ratios from 2006-07 to 2015-16.

Return on Assets (ROA):

Table 2 shows that the average value of ROA is 0.2440. This figure indicates an average return of .24 % on total assets employed in the firm. The figure is a clear indication of poor performance during the selected period. However the standard deviation of ROA during the same period is 6.9267 which indicate a moderate level of dispersion in the given set of data from its mean value. The minimum figure of ROA is -15.2407 which indicates that profitability of selected textile units have even gone to negative in some of the year while maximum figure of ROA is 13.0763 which is indicative of decent return in some years.

Return on Capital Employed (ROCE):

Table 2 shows that the average value of ROCE is 0.4661. This figure indicates an average return of 0.46 % on total capital employed in the firm. A firm is said to be performing well only when it is able to fetch good return on its capital employed. The figures in the table clearly indicate that the selected private textile units are unable to earn considerable amount of return on their capital employed. Furthermore the standard deviation of ROCE during the study period is 11.3593 which indicate that there is a high level of dispersion in the given set of data from its mean value. The minimum figure of ROCE is -22.9428 which indicates that in some of the year the firm was unable to earn any return on its capital employed whereas the maximum figure of ROCE is 32.7868 which is indicative of decent return on its capital employed in some its previous years.

Return on Net worth (RONW):

RONW is an important indicator of overall proficiency of the firm. In case of selected private textile units, table 2 shows that the average value of RONW is -16.1694. This figure indicates that the firm was unable to make optimum utilization of resources; hence resulting into negative return on its net worth. Furthermore the standard deviation of RONW during the study period is 65.3646 which indicate that there is a significantly high level of dispersion in the given set of data from its mean value. The minimum figure of RONW is -220.304 which indicates that the firm was unable to fetch any return on its net worth in some of the previous year resulting into severe deterioration in the company's profitability and efficiency whereas the maximum figure of RONW is 61.3827 which is indicative of decent return on its capital employed in some its previous years

Liquidity Ratio:

Liquidity Ratios are used to measure the short-term solvency of a business firm. They show the ability of the company to quickly convert its assets into cash to pay its short-term debts. The short term obligations are met by releasing amounts from current, floating or circulating assets. The sufficiency or insufficiency of current assets should be assessed by comparing them with short term liabilities. Liquidity refers to the ability of a concern to meet its current obligations as and when these become due (Gupta & Sharma, 2014).

Current Ratio (CR):

Current ratio is a measure of general liquidity and the average value of CR in case of selected private textile units is 2.438. Table 2 shows that these firms are quite closer to the ideal standard of 2:1.The average figure shows that these firms are financially strong enough to meet its short term liabilities. Furthermore the standard deviation of CR during the study period is 0.7424 which indicates that there is a high level of Consistency in the given set of data from its mean value. The minimum figure of CR is 0.955 and maximum figure of CR is 3.88 which is indicates that these firms are fairly able to

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meet their short term obligation.

Liquid ratio (LR):

Liquid ratio is very useful to check the liquidity position of a firm and the average value of LR in case of selected private textile units is 1.816. Table 2 shows that these firms are quite closer to the ideal standard of 1:1.The mean value shows that short term liquidity positions of these firms are financially very strong. Also, the standard deviation of LR during the study period is 0.799 which indicates that there is a high level of Consistency in the given set of data from its mean value. The minimum figure of LR is 0.55 and maximum figure of LR is 3.63 which is indicates that these firms are fairly able to meet their short term obligations when they come due with only quick assets.

Solvency Ratio (SR):

Solvency ratios depict the ability of a firm to meet its long term obligations. These ratios help in calculating the risk arising from the use of debt capital.

Debt Equity Ratio (DER):

The debt to equity ratio shows how the firm finances its operations with debt relative to the book value of its shareholders equity (Khan & Jain 2011). Table 2 shows that the DER has mean value of 5.911; it means that capital structure is highly leveraged. This may results into riskiness of selected firm's financial structure, consequently lowering down the overall value of firms as well as shareholder wealth. Also, the standard deviation of DER during the study period is 4.68 which indicate that there is a moderate level of dispersion in the given set of data from its mean value. The minimum figure of DER is 1.64 which is satisfactory whereas the maximum figure of DER is 18.74 which indicate that these firms are excessively leveraged in some of the previous year resulting into greater exposure towards financial risks.

Proprietary Ratio (PR)

Proprietary Ratio shows relationship between shareholder's funds and the total assets of the firm. It is considered an important tool for determining long term solvency of the firm (Pillai and Bagavathi, 2008). Generally it is believe that higher the ratio better is the long term solvency position of the firm. Table 2 shows that the average value of PR is 0.198 which is low and indicates that long term solvency position of selected private textile units are not strong enough. However the standard deviation of PR during the study period is 0.091 which indicates that there is considerable amount of consistency in the given set of data from its mean value. The minimum figure of PR is 0.050 and the maximum figure of PR is 0.375 which indicates that these firms are excessively leveraged in some of the previous year resulting into minimization of shareholders fund.

Turnover Ratio

Turnover ratio measures how efficiently the assets are employed by the firm. These ratios are based on the relationship between the levels of activity, represented by the sales or cost of goods sold and the levels of various assets (Chandra, 2011).

Stock Turnover Ratio (STR):

The inventory ratio is an important tool to test how efficiently and effectively the inventory is managed. A low

inventory turnover ratio shows an inefficient management of inventory whereas too high turnover of inventory may not necessarily always depicts a favorable situation. Table 2 shows that the STR has mean value of 3.94 times which means that the velocity of turning inventory into receivables of the selected private textile units is moderate enough. Also, the standard deviation of STR during the study period is 2.06 which indicate normality of the data up-to a considerate level in the given set of data from its mean value. The minimum figure of STR is 0.04 and the maximum figure of STR is 6.59 which indicate that velocity of converting stock into saleable products is satisfactory.

Total Asset Turnover Ratio (TATR)

The total asset turnover ratio indicates the potential of a company to use its assets efficiently in order to generate the sales. Higher the ratio better is the ability of the firm to generate sales out of its total assets. Table 2 shows that the average value of TATR is 0.55 which means that selected firms are able to utilize only 0.55 times of their asset's potential to generate sales. Moreover, standard deviation of TATR during the study period is 0.46 which indicates that there is considerable amount of consistency in the given set of data from its mean value. The minimum figure of TATR is 0.010 and the maximum figure of TATR is 1.67 which indicates that these firms are generating relatively low level of sales from the use of their total assets.

Expenses Ratio

Expenses ratio shows relationship between various expenses to Net sales. It implies that higher the ratio lower is the profitability and lower the ratio greater is the profitability.

Operating Expense Ratio (OER)

Table 2 show that the average value of OER is 9.522 which indicates that selected firms are incurring 9.5 % of operating expenses which is high in comparison to the set standards resulting into low profitability of these firms. Also, standard deviation of OER during the study period is 3.788 which indicate that there is moderate level of consistency in the given set of data from its mean value. The minimum figure of OER is 2.969 and the maximum figure 16.65 which indicates that these firms are generating relatively high level of operating expense resulting into deterioration of financial health of these firms.

Cost of Goods sold Ratio (COGSR)

Table 2 show that the average value of COGSR is 86.56 which clearly indicates that selected firms are incurring heavy cost of production resulting into higher expenses ratio and consequently low profitability. Furthermore, standard deviation of COGSR during the study period is 28.63 which indicate that the given set of data is highly inconsistent from its mean value. The minimum figure of COGSR is 51.53 and the maximum figure 181.11 which indicates that these firms are generating relatively high level of expenses owing to cost of goods sold resulting into low profitability and deterioration of financial health of these firms.

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