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PROFITABILITY OF TEXTILE INDUSTRY IN INDIA- AN ANALYTICAL STUDY



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ABSTRACT:

The present paper analyses the profitability of four major textile companies in India. The data has been collected from the financial reports of the textile companies since 2011-12 to 2014-15 and analyzed by applying one way ANOVA as the statistical tool. The analysis of the data shows that significant difference exists in selected textile companies in India with respect to gross profit ratio, net profit ratio, operating profit ratio, return on capital employed, and return on shareholder's fund.

Key words: *textile, textile companies, profitability, ANOVA.*

INTRODUCTION:

The Indian material industry is one of the biggest on the planet with a huge crude material and materials fabricating base. Material is one of India's most established commercial ventures and involves a remarkable spot in our nation. The material segment in India positions by farming. Around 27% of the outside trade profit are by virtue of fare of materials and attire alone. The materials and garments segment contributes around 14% to the mechanical creation what's more, 3% to the total national output of the nation. Around 8% of the aggregate extract income



gathering is contributed by the material business. Around 35 million individuals are straightforwardly utilized in the material assembling exercises. Backhanded occupation incorporating the labor occupied with horticultural based crude material creation like cotton and related exchange and taking care of could be expressed to be around another. The Indian material industry keeps on being overwhelmingly in light of cotton, with around 65% of crude materials devoured being cotton. The yearly yield of cotton fabric was around 12.8 billion m (around 42 billion ft). The assembling of jute items (1.1 million metric tons) positions next in significance to cotton weaving. Material Industry is giving a standout amongst the most fundamental needs of individuals and keeping up maintained development for enhancing

personal satisfaction. It has a one of a kind position as an independent industry, from the generation of crude materials to the conveyance of completed items, with generous quality expansion at every phase of handling. It gives significant commitment to the nation's economy. Therefore, the present study analyzes the profitability of four major textile companies for the past five years.

Table 1: An Overview of Selected Textile Companies

| Textile Companies | Turnover | Corporate Office |
|-------------------|--------------------|---------------------|
| Wardhman textiles | 1 Billion dollar | Ludhiana, Punjab |
| Arvind Mills | 932 Million Dollar | Ahmedabad, Gujrat |
| Bombay Dyeing | 310 Million Dollar | Mumbai, Maharashtra |
| Raymonds | 250 Million Dollar | Mumbai, Maharashtra |

Profitability:

The term 'profitability' is comprised of two words, 'profit', and ability. Profits are the test of efficiency and measure of control. The basic financial objective of companies is to maximize wealth from the use of funds employed by them. It is a relative concept. Profits are the soul of the business enterprise. It is the driving force to achieve its objectives and is the reward of entrepreneurship. The term 'ability' refers to the 'earning power' or 'operating performance' of the concern in its investment. Hence, profitability may be defined as the ability of a given investment to earn a return from its use. Profitability refers to the ability of a firm to generate revenues in excess of expenses. The efficiency of the management in accomplishing its goal of profit maximization is measured by the profitability of the business. Greater the profitability more will be the efficiency of the management. Maximization of profits and wealth can be achieved with the highest profitability rate. Profitability is a relative measure which is the net result of policies followed and decisions taken by an enterprise. It is the primary measure of the overall success of a business and measures of the effective utilization of its resources. Profitability is the profit making ability of the enterprise. Profits, being quantitative in nature, alone do not help in an inter firm and intra firm comparison.

Techniques of analyzing Profitability:

- * Trend Percentage Analysis
- * Comparative Statements
- * Common-size Statements
- * Fund Flow Analysis
- * Ratio Analysis

Ratio analysis is a very powerful tool. Four categories of ratios are used for analyzing the financial statement. Liquidity Ratios, Leverage / Capital Structure Ratios, Profitability Ratios, Turnover Ratios. Profitability ratios are useful in analyzing the profitability of a firm. The

profitability ratios can be broadly divided into two groups:

- A. Profitability in relation to sales
- B. Profitability in relation to investment

Profitability in relation to sales includes gross profit margin, operating profit margin, and net profit margin while profitability in relation to investment includes return on total assets, return on net assets, return on shareholder's equity, earnings per share and price earning ratio. In this study, only five ratios namely gross profit ratio, operating profit ratio, net profit ratio, return on capital employed, and

return on shareholder's equity have been calculated and then differences is made with the help of SPSS 19.

Review of Literature:

1. Barthwal (1976) in his study on *"The Determinants of Profitability in Indian Textile Industry"* has identified the factors which cause variation in profitability. The explanatory variables used in this study are past profitability, size of the firm, age of the firm, past growth, capital output ratio, and changes in average cost of production. The study revealed that the past profitability and changes in the average cost of production over the previous years have been significant determinants of profitability for the firms in the industry, in different regions of the country. Besides, the other factors like capital-output ratio, size, age of the firm and past growth have explained less than 25% of variation in the profitability.

2. Gupta (1979) in his paper entitled *"Financial Ratios as Forewarning Indicators of Sickness,"* studied 41 Indian textile companies, of which 20 are sick and 21 are non-sick companies. He has applied 63 financial ratios and revealed that two ratios i.e. earning before depreciation, interest, and taxes to sales and operating cash flow to sales are significant.

3. Kulshrestha (1980) in his research entitled *"Corporate Liquidity: X Rayed"* found that lower profitability is an offshoot of excessive liquidity and deterioration in managerial efficiency exhibited through inappropriate decisions taken in the spheres of expansion, credit policies and dividend policies.

4. Banerjee (1982) in his study entitled *"Corporate Liquidity and Profitability in India"* has examined the trend of liquidity position and its association with the profitability, taking medium and large scale public limited companies from 1970-71 to 1977-78. He has found that in India, in certain industry groups, a rise in liquidity has led to a rise in profitability and vice versa, whereas in other industry groups, the association between liquidity and profitability is negative.

5. Mukerjee (1986) in his study titled *"Management of Working Capital in Public Enterprises"* in respect of Central Government undertakings and covering a period from 1974-75 to 1978-79, has identified that the operating profit assets have increased due to the accumulation of inventories and operating profit liabilities have increased due to increase in payables. The overall size of the working capital has been significantly influenced by the size of sales and output. He has found out that the working capital requirements of the units are not ascertained based on the considerations as suggested for prudent financial management. There is a negative correlation between overall profitability and size of working capital. The liquidity and profitability have a very significant negative correlation. There has been an over investment in structural determinants and huge size of working capital due to faulty financial policies of the units.

6. Ganesan (2001) in his study entitled, *"Determinants of Profits and Profitability of Public Sector Banks in India: A Profit Function Approach"* has selected State Bank of India Group and 19 nationalized banks as sample to identify the determinants of profits and profitability. The empirical examination of profit function shows that interest cost, interest income, other income, deposit per branch, credit to total assets, proportion of priority sector advances and interest income loss are the significant determinants of profits and profitability of Indian public sector banks. It has been revealed that banking sector reforms and individual banks policies towards direct investment and direct credit programmes have played a significant role in improving the profitability of the banking sector.

7. Mahesh et al. (2002) in their research paper entitled, *"Determinants of Capital Structure in India"* have studied the determinants of capital structure in India. The study reveals that assets composition, collateral value of assets, life of the company and the corporate size have significantly influenced the capital structure whereas the business risk is found to be insignificant in deciding the leverage of the firm. Moreover, asset composition is significantly and positively related to the debt-equity ratio in

cotton and engineering industries and negatively related to chemical, pharmaceuticals and cement industries. Life of the company is, all the more, positively related to the long-term debt-equity ratio of cotton, chemicals, pharmaceuticals, and cement industries. Business risk is statistically significant in the positive direction in engineering industry only with long term debt-equity ratio.

8. Sami and Khan (2015) in their research paper entitled, *“Financial Performance Appraisal of Paper Industry in India: A Study of Selected Paper Mills”* analyzed the financial performance of two paper industries namely Ballarpur Industries Limited (BILT) and Tamil Nadu Newsprint & Papers Limited (TNPL) and collected data from the annual reports for three years since 2012-13 to 2014-15. Nonetheless, the researchers applied independent sample t-test to analyze the results. Their analysis revealed that there is a significant difference in the selected industries on the variables gross profit ratio, net profit ratio, operating profit ratio, return on capital employed and return on shareholder’s fund.

Objectives of the Study

The following are the objectives of the study:

- i. To discuss the concept of profitability in brief.
- ii. To provide a synoptic view of textile industries.
- iii. To study the profitability position of the selected textile industries in India.

Hypotheses Development:

Ho1: There is no significant difference between gross profit ratios of the selected textile companies in India.

Ha1: There is a significant difference between gross profit ratios of the selected textile companies in India.

Ho2: There is no significant difference between net profit ratios of the selected textile companies in India.

Ha2: There is a significant difference between net profit ratios of the selected textile companies in India.

Ho3: There is no significant difference between operating profit ratio of the selected textile companies in India.

Ha3: There is a significant difference between operating profit ratio of the selected textile companies in India.

Ho4: There is no significant difference between return on capital employed of the selected textile companies in India.

Ha4: There is a significant difference between return on capital employed of the selected textile companies in India.

Ho5: There is no significant difference between return on shareholder’s fund of the selected textile companies in India.

Ha5: There is a significant difference between return on shareholder’s fund of the selected textile companies in India.

Scope of the Study:

This study aims at making an analysis of profitability of the selected textile mills in India. The listed companies engaged in textile business have been considered for the study. The scope of profitability is very wide and hence the study has analyzed only the accounting of profitability.

Period of Study:

The period of study has been confined to five years i.e. 01st April, 2011 to 31st March, 2015.

Frame work of Analysis:

Appropriate statistical tools have been used to analyze the data. Statistical techniques analysis of variation (ANOVA) has been used.

Sources of Data

The study is based on the secondary sources of data collected from the published financial annual reports of the selected textile companies of the past five years.

Hypothesis Testing:

Hypothesis 1-

Ho₁: There is no significant difference in gross profit ratio of the selected textile companies in India.

Ha₁: There is a significant difference in gross profit ratio of the selected textile companies in India.

One way ANOVA has been used as a statistical tool to examine the difference in gross profit ratios of the selected textile companies in India. The null hypothesis is that there is no significant difference in gross profit ratios of the selected textile companies in India. Table 4 shows the significant value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, null hypothesis is rejected and hence it can be said that there is a significant difference in gross profit ratios of the selected textile companies in India.

Hypothesis 2-

Ho₂: There is no significant difference in net profit ratio of the selected textile companies in India.

Ha₂: There is a significant difference in net profit ratio of the selected textile companies in India.

One way ANOVA has been used as a statistical tool to examine the difference in net profit ratios of the selected textile companies in India. The null hypothesis is that there is no significant difference in net profit ratios of the selected textile companies in India. Table 5 shows the significant value is 0.004 which is less than 0.05 at 95 percent confidence interval. Therefore, null hypothesis is rejected and hence it can be said that there is a significant difference in net profit ratio of selected textile companies in India.

Hypothesis 3-

Ho₃: There is no significant difference in operating profit ratio of the selected textile companies in India.

Ha₃: There is a significant difference in operating profit ratio of the selected textile companies in India.

One way ANOVA has been used as a statistical tool to examine the difference in operating profit ratios of the selected textile companies in India. The null hypothesis is that there is no significant difference in operating profit ratios of the selected textile companies in India. Table 6 shows the significant value is 0.001 which is less than 0.05 at 95 percent confidence interval. Therefore, null hypothesis is rejected and hence it can be said that there is a significant difference in operating profit ratio of the selected textile companies in India.

Hypothesis 4-

Ho₄: There is no significant difference in return on capital employed of the selected textile companies in

India.

Ha⁴: There is a significant difference in return on capital employed of the selected textile companies in India.

One way ANOVA has been used as a statistical tool to examine the difference in quick profit ratios of the selected textile companies in India. The null hypothesis is that there is no significant difference in return on capital employed of the selected textile companies in India. Table 7 shows the significant value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, null hypothesis is rejected and hence it can be said that there is a significant difference in return on capital employed of the selected textile companies in India.

Hypothesis 5-

Ho₅: There is no significant difference in return on shareholder’s fund of the selected textile companies in India.

Ha₅: There is a significant difference in return on shareholder’s fund of the selected textile companies in India.

One way ANOVA has been used as a statistical tool to examine the difference in return on shareholder’s fund of the selected textile companies in India. The null hypothesis is that there is no significant difference in return on shareholder’s fund of the selected textile companies in India. Table 8 shows the significant value is 0.003 which is less than 0.05 at 95 percent confidence interval. Therefore, null hypothesis is rejected and hence it can be said that there is a significant difference in return on shareholder’s fund of the selected textile companies in India.

| No | Hypotheses | Results |
|----|--|----------|
| 1 | There is no significant difference in gross profit ratio of the selected textile companies in India. | Rejected |
| 2 | There is no significant difference in net profit ratio of the selected textile companies in India. | Rejected |
| 3 | There is no significant difference in operating profit ratio of the selected textile companies in India. | Rejected |
| 4 | There is no significant difference in return on capital employed of the selected textile companies in India. | Rejected |
| 5 | There is no significant difference in return on shareholder’s fund of the selected textile companies in India. | Rejected |

Table 2 Summary of F Value, Sig. Value, and Remarks of Hypotheses Tested

| Hypotheses | F Value | Sig. Value | Remarks |
|------------|---------|------------|-------------|
| Ho1 | 22.030 | 0.000 | Significant |
| Ho2 | 11.354 | 0.000 | Significant |
| Ho3 | 1.580 | 0.001 | Significant |
| Ho4 | 2.166 | 0.000 | Significant |
| Ho5 | 10.975 | 0.003 | Significant |

Summary:

Table 2 shows the summary of the entire hypotheses tested to examine the differences in gross profit ratio, net profit ratio, operating profit ratio, return on capital employed, and return on

shareholder's fund of the selected textile companies in India. Table 3 exhibits the F-Value, and significant value. All the hypotheses have been rejected meaning thereby significant difference exists in gross profit, net profit, operating profit and return on capital employed in selected textile companies in India.

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APPENDIX

Table 4 : ANOVA of Gross Profit Ratio

| | Sum of Squares | df | Mean Square | F | Sig. |
|--------------------------|----------------|----|-------------|--------|-------|
| Between Companies | 290.800 | 3 | 96.933 | 22.030 | 0.000 |
| Within Companies | 70.400 | 16 | 4.400 | | |
| Total | 361.200 | 19 | | | |

Source: Output of SPSS 19

| Table 5 : ANOVA of Net Profit Ratio | | | | | |
|-------------------------------------|----------------|----|-------------|--------|-------|
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Companies | 750.150 | 3 | 250.050 | 11.354 | 0.000 |
| Within Companies | 352.800 | 16 | 22.050 | | |
| Total | 1102.950 | 19 | | | |

Source: Output of SPSS 19

| Table 6 : ANOVA of Operating profit Profit Ratio | | | | | |
|--|----------------|----|-------------|-------|--------|
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Companies | 296.200 | 3 | 98.733 | 1.580 | 0.0001 |
| Within Companies | 1000.000 | 16 | 62.500 | | |
| Total | 1296.200 | 19 | | | |

Source: Output of SPSS 19

| Table 7 : ANOVA of Return on capital employed | | | | | |
|---|----------------|----|-------------|-------|-------|
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Companies | 349.000 | 3 | 116.333 | 2.166 | 0.000 |
| Within Companies | 859.200 | 16 | 53.700 | | |
| Total | 1208.200 | 19 | | | |

| Table 8 : ANOVA of Return on Shareholder's Fund | | | | | |
|---|----------------|----|-------------|--------|-------|
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Companies | 1349.000 | 3 | 449.666 | 10.975 | 0.003 |
| Within Companies | 659.200 | 16 | 41.187 | | |
| Total | 2008.200 | 19 | | | |

Source: Output of SPSS 19



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