

# A Study On Financial Efficacy Of Selected NSE Listed Textile Mills In India

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**Abstract - India's textiles sector is one of the primary sector contributing to the development of the nation and employing millions. Even today, textiles sector has its contribution for exports around 11 per cent. The Indian Textile Industry contributes 5 per cent to India's Gross Domestic Product (GDP), and 14 per cent to overall Index of Industrial Production (IIP). The textiles industry is primarily labour intensive which is classified in to unorganized and organized sectors. In the first category handloom, handicrafts and sericulture are in place which is mainly operated by small and medium scale entrepreneurs. The organized sector of textile includes spinning, apparel and garments segment which apply modern machinery and techniques such as economies of scale. Totally the sector employees more than 40 million workers directly and 55 million indirectly .So it is very much important to analyse the financial aspects of the well performing textile units operating in the country . The present article analyses the factors influencing the profitability of the selected textile spinning cotton blended mills based on their net profit . According to the prowess corporate database developed by CMIE, (Centre for Monitoring Indian Economy) 24 Textiles - Spinning - Cotton Blended mills are listed in BSE. Out of them five mills have been chosen for the analysis based on their net profit Vardhman TextIndo Count,Trident,Ambika Cotton and Nitin Spinners.**

**KEYWORDS: *Textiles sector, labour intensive, to unorganized and organized sectors, spinning, apparel and garments segment, textile spinning cotton blended mills.***

## **I. INTRODUCTION TO THE CONCEPT OF PROFITABILITY**

In the era of economic development, the profit and the profitability are two different concepts. Although both of them are controversial, even then both are inter-related and mutually inter-dependent. Profit is the absolute term and profitability is a relative concept. Notably, while profit is the residue of income, profitability is the profit-making ability of the enterprise. It may be remarked that the profit-making ability might denote a constant or improved or deteriorated state of affairs during a given period. Thus, profit is an absolute connotation, whereas profitability is a relative concept, despite being closely related to and mutually interdependent, as they are, profit and profitability are two different concepts. In other words, in spite of their generic nature, each one of them has a distinct role in business concerns might be the same and yet more often than note their profitability could differ when measured in terms of the size of investment. An analysis of the

profitability reveals as to how the position of profits stands as a result of total transactions made during the year. Profitability may be defined as the ability of a given investment to earn a return from its uses. Profitability is a relationship of the earnings to total resources of the corporation. Stanev remarked, profitability is an overall reflection of the strength and weakness of an enterprise. Therefore, profitability is the main indicator of the efficiency and effectiveness of a business' enterprise in achieving its goal of earning profit. Profitability as a relative measure enables the management to make prompt change in the financial and production policies in the light of the past performance. Many important management decisions pertaining to such issues as further expansion of plant, adoption of modern technology, raising of additional funds, payment of bonus and higher dividend are linked with this relative measure. The present article measures the profitability of the selected 5 textile units with the help of

current ratio which is analysed and the results have presented as follows:

**1.2 OBJECTIVE OF THE STUDY:**

The study is conducted to measure and assess the ratios that influences the profitability of selected textile companies in India

**1.3 SAMPLING METHOD:**

with the help of stratified random sampling 5 textile mills listed in bse/nse have been selected for the study by the author.

**1.4 scope of the study:**

The study assess the financial variables by taking the current ratio as dependent variable and the data has extracted for the period of 10 years from CMIE between 2008-09 to 2017-18 and the analysis is tabulated.

**TABLE No.1.1 MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO - AMBIKA COTTON MILLS LTD.**

| S.No.           | Ratio                           | Multiple Regression Co-efficient | t' value | p-value |
|-----------------|---------------------------------|----------------------------------|----------|---------|
| X <sub>1</sub>  | Quick ratio                     | -.025                            | -.096    | .926    |
| X <sub>2</sub>  | Interest Coverage Ratio         | -.043                            | -.168    | .870    |
| X <sub>3</sub>  | Net working capital to sales    | .327                             | .832     | .427    |
| X <sub>4</sub>  | Raw material turnover ratio     | -.672                            | -2.870   | .017**  |
| X <sub>5</sub>  | Debtors turnover ratio          | .064                             | .260     | .801    |
| X <sub>6</sub>  | Creditors turnover ratio        | -.201                            | -.807    | .440    |
| X <sub>7</sub>  | Distribution expenses ratio     | .409                             | 1.150    | .280    |
| X <sub>8</sub>  | Miscellaneous expenditure ratio | -.177                            | -.528    | .610    |
| X <sub>9</sub>  | Operating expenses ratio        | -.293                            | -.815    | .436    |
| X <sub>10</sub> | Net fixed assets turnover ratio | -.175                            | -.580    | .576    |
| X <sub>11</sub> | Debt to equity ratio            | .059                             | .154     | .881    |

|                 |                          |       |       |      |
|-----------------|--------------------------|-------|-------|------|
| X <sub>12</sub> | Inventory turnover ratio | -.129 | -.361 | .726 |
|-----------------|--------------------------|-------|-------|------|

\*\*significant at 5% level. \* Significant at 1% level

**TABLE No.1.1.2- ANOVA**

|            | Sum of Squares | df | Mean Square | F-value | p-value | S/N S |
|------------|----------------|----|-------------|---------|---------|-------|
| Regression | 0.083          | 1  | 0.083       | 8.235   | 0.017*  | S     |
| Residual   | 0.100          | 10 | 0.010       |         |         |       |
| Total      | 183            | 11 |             |         |         |       |

\*\*significant at 5% level. \* Significant at 1% level S- significant NS – Not significant

**TABLE No.1.1.3.2-MODEL SUMMARY**

|          |                 |
|----------|-----------------|
| <b>R</b> | <b>R square</b> |
| 0.672    | 0.452           |

It is clear that, the multiple regression co-efficient values of Ambika Cotton Mills Ltd. These presented values indicate that one variable is individually contributing significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig ( p) values give a rough indication of the impact of each predictor variable namely, Raw material turnover ratio (t- 2.87, p- 0.017, p< 0.05). In connection with this, the R<sup>2</sup> value in terms of these variables is 45.2 per cent. From the overall ANOVA results, the p-value is less than the 0.05(p<0.05).Hence, this model is statistically significant.

**TABLE No.1.2 MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO - GANGOTRI TEXTILES LTD.**

| S .No.         | Ratio of                     | Multiple Regression Co-efficient | t' value | p-value |
|----------------|------------------------------|----------------------------------|----------|---------|
| X <sub>1</sub> | Quick ratio                  | -.011                            | -.284    | .788    |
| X <sub>2</sub> | Interest Coverage Ratio      | .094                             | 2.272    | .072    |
| X <sub>3</sub> | Net working capital to sales | .815                             | 34.696   | .000*   |
| X <sub>4</sub> | Raw material turnover ratio  | -.176                            | -3.116   | .021**  |
| X <sub>5</sub> | Debtors turnover ratio       | .045                             | 1.544    | .183    |

|                 |                                 |       |         |       |
|-----------------|---------------------------------|-------|---------|-------|
| X <sub>6</sub>  | Creditors turnover ratio        | -.018 | -.131   | .901  |
| X <sub>7</sub>  | Distribution expenses ratio     | -.003 | -.133   | .899  |
| X <sub>8</sub>  | Miscellaneous expenditure ratio | -.072 | -1.156  | .300  |
| X <sub>9</sub>  | Operating expenses ratio        | -.340 | -5.596  | .001* |
| X <sub>10</sub> | Net fixed assets turnover ratio | -.046 | -.549   | .607  |
| X <sub>11</sub> | Debt to equity ratio            | -.389 | -10.174 | .000* |
| X <sub>12</sub> | Inventory turnover ratio        | -.378 | -17.662 | .000* |

\*\*significant at 5% level. \* Significant at 1% level

**ANOVA-TABLE No.1.2.1**

|            | Sum of Squares | df | Mean Square | F       | p-value | S/N S |
|------------|----------------|----|-------------|---------|---------|-------|
| Regression | 1.222          | 5  | .244        | 681.385 | .000*   | S     |
| Residual   | .002           | 6  | .000        |         |         |       |
| Total      | 1.224          | 11 |             |         |         |       |

\*\*significant at 5% level. \* Significant at 1% level S- significant NS - Not significant

**TABLE No.1.2.2-MODEL SUMMARY**

| MODEL | R     | R- SQUARE |
|-------|-------|-----------|
| 1     | 0.999 | 0.998     |

It is observed that, the multiple regression co-efficient values of Gangotri Textiles Ltd. These presented values indicate that five variables are individually contribute significantly to variations in the ratio of return on total assets when influence of other variables are kept constant. The t and Sig ( p) values give a rough indication of the impact of each predictor variable like Net working capital to sales Ratio(t 34.696, p 0.000, p< 0.01),Raw material turnover Ratio(t -3.116, p 0.21, p< 0.05), Operating expenses ratio( t -5.596, p .001, p< 0.01),Debt to equity ratio(t -10.174, p 0.000, p< 0.01),Inventory turnover ratio(t -17.662, p- 0.000, p< 0.01). In connection with this, the R<sup>2</sup>value in terms of these variables is 99 percent. Overall ANOVA results, the p-value is less than the 0.01 (p<0.01) for all the above ratios except Raw material turnover ratio

which is at 5 Percent level. Hence, this model is statistically significant.

**TABLE No.1.3 MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO - K G DENIM LTD.**

| S.No.           | Ratio of                        | Multiple Regression Co-efficient | t' value | p-value |
|-----------------|---------------------------------|----------------------------------|----------|---------|
| X <sub>1</sub>  | Quick ratio                     | .000                             | -.005    | .996    |
| X <sub>2</sub>  | Interest Coverage Ratio         | .048                             | .640     | .540    |
| X <sub>3</sub>  | Net working capital to sales    | 1.004                            | 22.806   | .000*   |
| X <sub>4</sub>  | Raw material turnover ratio     | .000                             | .000     | 0.99    |
| X <sub>5</sub>  | Debtors turnover ratio          | .004                             | .071     | .945    |
| X <sub>6</sub>  | Creditors turnover ratio        | .059                             | .728     | .487    |
| X <sub>7</sub>  | Distribution expenses ratio     | -.063                            | -.900    | .395    |
| X <sub>8</sub>  | Miscellaneous expenditure ratio | .059                             | 1.149    | .284    |
| X <sub>9</sub>  | Operating expenses ratio        | -.055                            | -1.136   | .289    |
| X <sub>10</sub> | Net fixed assets turnover ratio | -.177                            | -4.029   | .003*   |
| X <sub>11</sub> | Debt to equity ratio            | .016                             | .339     | .743    |
| X <sub>12</sub> | Inventory turnover ratio        | -.001                            | -.008    | .993    |

\*\*significant at 1% level. \* Significant at 5% level

**TABLE No.1.3.1-ANOVA**

|            | Sum of Squares | df | Mean Square | F       | p-value | S/N S |
|------------|----------------|----|-------------|---------|---------|-------|
| Regression | .182           | 2  | .091        | 260.160 | .000*   | S     |
| Residual   | .003           | 9  | .000        |         |         |       |
| Total      | .185           | 11 |             |         |         |       |

\*\*significant at 5% level. \* Significant at 1% level S- significant NS - Not significant

**TABLE No.1.3.2 -MODEL SUMMARY**

| MODEL | R    | R- SQUARE |
|-------|------|-----------|
| 1     | 0991 | 0.983     |

It shows that, the multiple regression co-efficient values of KG Denim Ltd. These presented values indicate that two variables are individually contributing significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig ( p) values give a rough indication of the impact of each predictor variable namely, Net working capital to sales (t 22.806 , p .000 , p< 0.01) , Net fixed assets turnover ratio(t 4.029, p .003 , p< 0.05). In connection with this, the R<sup>2</sup> value in terms of these variables is 99 percent. Overall ANOVA results, the p-value is less than the 0.01 (p<0.01).Hence, this model is statistically significant.

**TABLE No.1.4 MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO – LAKSMI MILLS CO LTD**

| S.No.           | Ratio of                        | Multiple Regression Co-efficient | t' value | p-value |
|-----------------|---------------------------------|----------------------------------|----------|---------|
| X <sub>1</sub>  | Quick ratio                     | .000                             | -.005    | .996    |
| X <sub>2</sub>  | Interest Coverage Ratio         | .048                             | .640     | .540    |
| X <sub>3</sub>  | Net working capital to sales    | -.018                            | -.131    | .901    |
| X <sub>4</sub>  | Raw material turnover ratio     | -.003                            | -.133    | .899    |
| X <sub>5</sub>  | Debtors turnover ratio          | .007                             | .089     | .932    |
| X <sub>6</sub>  | Creditors turnover ratio        | .059                             | .728     | .487    |
| X <sub>7</sub>  | Distribution expenses ratio     | -.063                            | -.900    | .395    |
| X <sub>8</sub>  | Miscellaneous expenditure ratio | .059                             | 1.149    | .284    |
| X <sub>9</sub>  | Operating expenses ratio        | 1.004                            | 22.806   | .000**  |
| X <sub>10</sub> | Net fixed assets turnover ratio | -.177                            | -4.029   | .003**  |
| X <sub>11</sub> | Debt to equity ratio            | .000                             | .000     | 0.99    |

|                 |                          |      |      |      |
|-----------------|--------------------------|------|------|------|
| X <sub>12</sub> | Inventory turnover ratio | .004 | .071 | .945 |
|-----------------|--------------------------|------|------|------|

\*\*significant at 1% level. \* Significant at 5% level

**TABLE No.1.4.1-ANOVA**

|            | Sum of Squares | df | Mean Square | F       | Sig.  |
|------------|----------------|----|-------------|---------|-------|
| Regression | .182           | 2  | .091        | 261.160 | .000* |
| Residual   | .004           | 9  | .000        |         |       |
| Total      | .186           | 11 |             |         |       |

\*\*significant at 5% level. \* Significant at 1% level S- significant NS – Not significant

**TABLE No.1.4.2- MODEL SUMMARY**

| Model | R   | R Square |
|-------|-----|----------|
| 1     | 099 | 0.972    |

a.Predictors(constant);X<sup>4</sup>

It is clear that, the multiple regression co-efficient values of Lakshmi Mills Ltd. These presented values indicate that two variables are individually contribute significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig ( p) values give a rough indication of the impact of each predictor variable namely, Operating expenses ratio, Net fixed assets turnover ratio (t-22.806, t-4.029 percent p- 0.017, p< 0.05). In connection with this, the R<sub>2</sub> value in terms of these variables is 97.2 per cent. Overall ANOVA results, the p-value is less than the 0.05(p<0.05).Hence, this model is statistically significant.

**TABLE No.1.5 MULTIPLE REGRESSION ANALYSIS OF THE SELECTED VARIABLES WITH THE RATIO OF CURRENT RATIO – KPR MILLS LTD**

| S.No.          | Ratio of                     | Multiple Regression Co-efficient | t' value | p-value |
|----------------|------------------------------|----------------------------------|----------|---------|
| X <sub>1</sub> | Quick ratio                  | .763                             | 11.895   | .000*   |
| X <sub>2</sub> | Interest Coverage Ratio      | -.004                            | -.051    | .961    |
| X <sub>3</sub> | Net working capital to sales | -.037                            | -.549    | .600    |
| X <sub>4</sub> | Raw material turnover ratio  | .080                             | .868     | .414    |

|                 |                                 |       |        |       |
|-----------------|---------------------------------|-------|--------|-------|
| X <sub>5</sub>  | Debtors turnover ratio          | .032  | .463   | .658  |
| X <sub>6</sub>  | Creditors turnover ratio        | -.011 | -.185  | .858  |
| X <sub>7</sub>  | Distribution expenses ratio     | -.341 | -5.315 | .001* |
| X <sub>8</sub>  | Miscellaneous expenditure ratio | -.054 | -.876  | .410  |
| X <sub>9</sub>  | Operating expenses ratio        | .007  | .089   | .932  |
| X <sub>10</sub> | Net fixed assets turnover ratio | -.047 | -.542  | .605  |
| X <sub>11</sub> | Debt to equity ratio            | -.064 | -.848  | .424  |
| X <sub>12</sub> | Inventory turnover ratio        | -.018 | -.242  | .816  |

\*\*significant at 5% level. \* Significant at 1% level

**TABLE No.1.5.1-ANOVA**

|            | Sum of Squares | df | Mean Square | F       | p     | S/NS |
|------------|----------------|----|-------------|---------|-------|------|
| Regression | 1.785          | 2  | .892        | 166.116 | .000* | S    |
| Residual   | .043           | 8  | .005        |         |       |      |
| Total      | 1.828          | 10 |             |         |       |      |

\*\*significant at 5% level. \* Significant at 1% level S- significant NS – Not significant

**TABLE No.1.5.2-MODEL SUMMARY**

| MODEL | R     | R SQUARE |
|-------|-------|----------|
| 1     | 0.988 | 0.976    |

It is clear that, the multiple regression co-efficient values of KPR Mills Ltd. It also indicate that two variables are individually contributing significantly to variations in the current ratio when influence of other variables are kept constant. The t and Sig ( p) values give a rough indication of the impact of each predictor variable namely, Quick ratio (t 11.895, p 0.000, p< 0.01), Distribution expenses ratio(t -5.315, p 0.001, p< 0.01). In connection with this, the R<sup>2</sup> value in terms of these variables is 97.6 percent. From the overall ANOVA results, the p-value is less than the 0.01(p<0.01).Hence, this model is statistically significant.

## II. CONCLUSION

It is revealed form the analysis that the profitability of each company is influenced by different variables

selected. In order to increase the financial efficiency of the companies, it is suggested to control the cost of goods sold and the operating expenses. The management should try to adopt cost reduction techniques in their companies to get over this critical situation. Company should find out other alternatives for reduce power and fuel cost. The textile companies should reduce power and fuel consumption by using lignite and agro waste product especially ground nut husk and beggass should be used as coal substitute. The selected textile groups of companies are the capital intensive in nature but the policy of purchase of fixed assets should be carefully planned and reviewed so that the funds may be properly utilized.

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