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A Comparative analysis of Financial Management Practices of Textile Industries of Rajasthan (With Special Reference to Banswara and Udaipur)

Surabhi Darak[1]*, Dr. Manoj Kumar Sharma[2]

[1] Research Scholar Accountancy and Business Statistics, Bhupal Nobles' University, Udaipur, India

[2] Assistant Professor, Accountancy and Business Statistics Bhupal Nobles' University, Udaipur, India

Abstract - Textiles are a major contribution to India's exports, accounting for around 11 percent of overall exports, according to the latest estimate from IBEF and another report from ICRA. One of the greatest employers and one of the most labour-intensive industries is textiles.For the present research the researcher has adopted a combination of both qualitative and quantitative data collection methods. Under qualitative approach a detailed review of literature is performed to understand the concept and problem statement. The main objective of the study is to find out the relationship between leverage and profitability of selected textile industry.

Keywords - Textile Sector, Profitability, Leverage etc

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1. INTRODUCTION

Textiles are a major contribution to India's exports, accounting for around 11 percent of overall exports, according to the latest estimate from IBEF and another report from ICRA. One of the greatest employers and one of the most labour-intensive industries is textiles. There are two major sectors in the textile business. As a first step, the unorganised sector includes small-scale handicrafts and small-scale sericulture operations. Spindling, clothing, and garments are all part of the organised sector that uses contemporary machinery and strategies like economies of scale. There are an estimated 40 million textile employees and 60 million indirectly employed by the sector. During the 2015-16 fiscal year, India exported $40 billion worth of textiles. Hand-spun and hand-woven textiles are at one end of the spectrum, while capital-intensive modern mills are at the other. The Indian textile industry is immensely diverse. In the textiles industry, the decentralised power looms/hosiery and knitting sector is the major component. In terms of textiles, India's textile industry is unlike any other because of the country's ancient textile culture and traditions and its tight ties to agriculture (for raw materials such as cotton). The sector has grown by over 5% annually for the last eight years. The textile industry in India expanded by 10% after the Quota rule was abolished. Due to sluggish worldwide demand, the sector grew by 5.7 percent in 2011-2012. After that, the sector began to revive and saw positive development in the following two years as a result of government support. Even though 2015-16 saw the largest growth in the previous five years (7 percent), the output of man-made filament yarn fell by 6 percent in that year. This year, cotton yarn output climbed by 14%, while man-made fiber production grew by just 2%. Since 2008, the country's fabric output has expanded at a CAGR of only 3.8 percent, which is less than half of what it could have achieved. Production in the handloom industry has decreased, although the hosiery and mill sectors have seen a rise in activity. Some technological advancements and the use of shuttle-less looms have contributed to an increase in power loom productivity, but this is not enough. If a firm is unable to meet its financial obligations to its creditors, it is in financial distress, which can result in significant losses for all parties involved in the business. It is therefore critical for investors, creditors, owners, managers, vendors and the state to accurately estimate the likelihood of financial trouble.

2. REVIEW OF LITERATURE

The effects of liquidity on profitability in Pakistan's textiles industry were analyzed. The basic regression was carried out in Stata 12, with CR having a favorable and substantial impact on ROCE and ROE in 2014, while the findings in 2015 indicate that CR has a beneficial but marginal effect on ROCE and ROE. Politicians must understand that absolute differences in outcomes are essential to the contrary **(Sattar, Ali. 2019)**.

India's history reveals the garment industry's magnificent accomplishments. “The Indian textile industry currently is not only in terms of production but also in terms of foreign currency sales and the creation of workers, among the most important industries of our economies”. For e.g., it contributes 14% to industrial output, 4% to GDP and 17% to the export earnings of the country. The United States, the European Union and Canada are the main importers in the global apparel industry. Asia was the largest sourcing area to the United States and the European Union for shipments of textiles and clothes. The paper aims to examine the Indian textile industry's patterns and development **(Mohideen and Muthuraju, 2016)**.

In their research Nirmala and Cheriyan (2015), analyzed the long-term debt-to-equity ratio of Lakshmi Mills Company Ltd. at financial year 2009-10 as 2,82, although the ratio has declined by the end of the 2013-14 study period to 0.16. The long-term debt level of Lakshmi Mills Corporation Ltd. has increased-56.22% per year. This illustrates the possibility of the company offering to settle its debts.

For Bangladesh, secondary data from the cement industry were analyzed for the period from 3 years 2010 to 2012 by Hoque, Mia and Anwar (2015). During this time, both profitability and liquidity positions were not adequate. They also clearly demonstrated a strong link between working capital management component and profitability.

The Indian textile industry is one of the world's leading textile industries. It consists of 3 parts, including cotton, synthetic material and other textiles, for example jute, wool and silk. “It plays a major role in economic development in the region, in addition to the basic necessities in the lives of the Indians **(Thiruchanuru, 2014).**

Subha, et al., (2014) in its 2004-2013 research report "financial performance of the textile sector in Tamil Nadu with special reference to theCoimbatore", presented the analysis with aim to evaluate the profitability of selected textile companies in Coimbatore. The instruments used are percentages, balance sheet of common scale, comparable balance sheet etc. “It has been presumed that Ambika cotton mills ltd, Bannari Amman spinning mills ltdand KG Denim ltd were good financial operating, since Gangotri textile ltd and Lakshmi mills ltd were unsatisfactory because of negative results”.

3. OBJECTIVE OF THE STUDY

To study the relationship between leverage and profitability

4. RESEARCH METHODOLOGY

For the present research the researcher has adopted a combination of both qualitative and quantitative data collection methods. Under qualitative approach a detailed review of literature is performed to understand the concept and problem statement. Under quantitative approach a self-structured questionnaire is framed and distributed to the respondents for collecting data relevant to the problem under investigation i.e., “A Comparative Analysis of Financial Management Practices of Textile Industries of Rajasthan (With Special Reference to Banswara and Udaipur)”.

Following textile industries are selected for study purpose;

- Rswm limited
- Reliance chemotex pvt. Limited

5. DATA ANALYSIS

Analysis of Leverage and Profitability for RSWM

Table 1: Profitability Ratios of RSWM

PROFITABILITY RATIOS	2021	2020	2019	2018	2017
Operating Margin (%)	3.63	15.67	15.83	17.83	17.87
Adjusted Cash Margin (%)	14.14	12.8	12.01	14.48	15.9
Adjusted Return On Net Worth (%)	5.82	8.98	8.67	10.68	10.8
Reported Return On Net Worth (%)	6.73	7.89	8.67	10.68	10.89
Return On long Term Funds (%)	6.15	9.67	10.91	12.71	11.85

Profitability Ratios of RSWM are given in the table above.

From the data it can be observed that Operating margin for all these years except 2021 is higher than 15% which is considered as good.

Adjusted Cash margin shows the higher percentage, which implies that thecompany is having more cash available from sales.

“Adjusted Return on net worth and reported return on net worth” data indicates that the RoNW ratio is higher for RSWM, which implies that the company is using shareholders equity more efficiently.

Return on long term funds for RSWM shows average annual rate of return of 10% for all the years except

2021 which is considered as good ROI for long-term investments in the stock market.

Table 2: Liquidity Ratios of RSWM

LIQUIDITY RATIOS	2021	2020	2019	2018	2017
Current Ratio	0.9	0.44	0.6	0.44	0.42
Current Ratio (Inc. ST Loans)	0.77	0.35	0.48	0.41	0.35
Quick Ratio	0.72	0.32	0.39	0.25	0.2
Fixed Assets Turnover Ratio	0.37	0.55	0.76	0.72	0.67

Above table shows the liquidity ratios for RSWM. These ratios shows the current ratio as less than or equal to 1 which shows that RSWM do not has sufficient current assets to pay off short-term liabilities.

Regarding quick ratios the value is again less than 1 for all the years. This implies that RSWM quick assets are not equal to its current assets. This also indicates that RSWM cannot pay off its current debts without selling its long-term assets i.e., it owns fewer quick assets than current liabilities.

To find whether "there is any significant correlation between profitability and liquidity ratios of RSWM" following hypothesis is framed;

H01: "There is no significant positive correlation between profitability and liquidity ratios of RSWM".

HA1: "There is a significant positive correlation between profitability and liquidity ratios of RSWM".

Table 3: Descriptive Statistics table of RSWM

Descriptive Statistics			
	Mean	Std. Deviation	N
Operating Margin (%)	7.7700	1.88819	5
Adjusted Cash Margin (%)	5.1200	1.86951	5
Adjusted Return On Net Worth (%)	2.5940	8.04880	5
Reported Return On Net Worth (%)	4.0980	7.08055	5
Return On long Term Funds (%)	10.0540	5.63290	5
Current Ratio	2.3200	.37249	5
Current Ratio (Inc. ST Loans)	.6500	.06708	5
Quick Ratio	1.2880	.22298	5
Fixed Assets Turnover Ratio	1.4680	.11300	5

Above table display the descriptive statistics of liquidity and profitability ratios. Data shows that highest mean is for Rerun on long term funds.

Table 4: Correlation table of RSWM

Correlations					
		Current Ratio	Current Ratio (Inc. ST Loans)	Quick Ratio	Fixed Assets Turnover Ratio
Operating Margin (%)	Pearson Correlation	-.300	-.446	-.577	.922*
	Sig. (2-tailed)	.624	.452	.308	.026
	N	5	5	5	5
Adjusted Cash Margin (%)	Pearson Correlation	-.526	-.127	-.744	.757
	Sig.(2-tailed)	.362	.839	.150	.139
	N	5	5	5	5
Adjusted Return On Net Worth (%)	Pearson Correlation	-.429	-.463	-.647	.864
	Sig. (2-tailed)	.471	.432	.238	.059
	N	5	5	5	5

Reported Return On Net Worth (%)	Pearson Correlation	-.317	-.329	-.638	.986**
	Sig. (2-tailed)	.603	.589	.247	.002
	N	5	5	5	5
Return On long Term Funds (%)	Pearson Correlation	-.318	-.584	-.565	.933*
	Sig. (2-tailed)	.602	.301	.321	.021
	N	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).					
**. Correlation is significant at the 0.01 level (2-tailed).					

Above table display that sig 2 tailed value is greater than .05 for all the ratios and therefore we accept the null hypothesis and states that" There is no significant positive correlation between profitability and liquidity ratios of RSWM".

Analysis of Leverage and Profitability for Reliance Chemotex

Table 5: Profitability Ratios of Reliance Chemotex

PROFITABILITY RATIOS	2021	2020	2019	2018	2017
Operating Margin (%)	3.63	15.67	15.83	17.83	17.87
Adjusted Cash Margin (%)	14.14	12.8	12.01	14.48	15.9
Adjusted Return On Net Worth (%)	5.82	8.98	8.67	10.68	10.8
Reported Return On Net Worth (%)	6.73	7.89	8.67	10.68	10.89
Return On long Term Funds (%)	6.15	9.67	10.91	12.71	11.85

Profitability Ratios of Reliance Chemotex are given in the table above.

From the data it can be observed that Operating margin for all these years except 2021 is higher than 15% which is considered as good.

Adjusted Cash margin shows the higher percentage, which implies that thecompany is having more cash available from sales.

"Adjusted Return on net worth and reported return on net worth" data indicates that the RoNW ratio is higher for Reliance Chemotex, which implies that the company is using shareholders equity more efficiently.

Return on long term funds for Reliance Chemotex shows average annual rate of return of 10% for all the years except 2021 which is considered as good ROI for long-term investments in the stock market.

Table 6: Liquidity Ratios of Reliance Chemotex

LIQUIDITY RATIOS	2021	2020	2019	2018	2017
Current Ratio	0.9	0.44	0.6	0.44	0.42
Current Ratio (Inc. ST Loans)	0.77	0.35	0.48	0.41	0.35
Quick Ratio	0.72	0.32	0.39	0.25	0.2
Fixed Assets Turnover Ratio	0.37	0.55	0.76	0.72	0.67

Above table shows the liquidity ratios for Reliance Chemotex. These ratios show the current ratio as less than or equal to 1 which shows that Reliance Chemotex do not has sufficient current assets to pay off short-term liabilities.

Regarding quick ratios the value is again less than 1 for all the years. This implies that Reliance Chemotex quick assets are not equal to its current assets. This also indicates that Reliance Chemotex cannot pay off its current debts without selling its long-term assets i.e., it owns fewer quick assets than current liabilities.

To find whether "there is any significant correlation between profitability and liquidity ratios of Reliance Chemotex" following hypothesis is framed;

H02: "There is no significant positive correlation between profitability and liquidity ratios of Reliance Chemotex".

HA2: "There is a significant positive correlation between profitability and liquidity ratios of Reliance Chemotex".

Table 7: Descriptive Statistics table of Reliance Chemotex

Descriptive Statistics			
	Mean	Std. Deviation	N
Operating Margin (%)	14.1660	5.98295	5
Adjusted Cash Margin (%)	13.8660	1.51413	5
Adjusted Return On Net Worth (%)	8.9900	2.01765	5
Reported Return On Net Worth (%)	8.9720	1.79475	5
Return On long Term Funds (%)	10.2580	2.55897	5
Current Ratio	.5600	.20347	5
Current Ratio (Inc. ST Loans)	.4720	.17499	5
Quick Ratio	.3760	.20526	5
Fixed Assets Turnover Ratio	.6140	.15758	5

Above table display the descriptive statistics of liquidity and profitability ratios of Reliance Chemotex. Data shows that highest mean is for Retrun on long term funds.

Table 8: Correlation table of Reliance Chemotex

Correlations					
		Current Ratio	Current Ratio (Inc. ST Loans)	Quick Ratio	Fixed Assets Turnover Ratio
Operating Margin (%)	Pearson Correlation	-.956*	-.953*	-.977**	.879*
	Sig. (2-tailed)	.011	.012	.004	.050
	N	5	5	5	5
Adjusted Cash Margin (%)	Pearson Correlation	-.172	-.084	-.247	-.095
	Sig. (2-tailed)	.782	.893	.688	.879
	N	5	5	5	5
Adjusted Return On Net Worth (%)	Pearson Correlation	-.941*	-.900*	-.982**	.793
	Sig. (2-tailed)	.017	.037	.003	.110
	N	5	5	5	5
Reported Return On Net Worth (%)	Pearson Correlation	-.765	-.699	-.860	.761
	Sig. (2-tailed)	.132	.189	.061	.135
	N	5	5	5	5
Return On long Term Funds (%)	Pearson Correlation	-.873	-.834	-.933*	.920*
	Sig. (2-tailed)	.054	.079	.021	.027
	N	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).					
**. Correlation is significant at the 0.01 level (2-tailed).					

Above table display that sig 2 tailed value is greater than .05 for all the ratios and therefore we accept the null hypothesis and states that "There is no significant positive correlation between profitability and liquidity ratios of Reliance Chemotex".

6. FINDINGS

Analysis of Leverage and Profitability for RSWM

Findings from Profitability Ratios of RSWM are described as follows;

- From the data it can be observed that Operating margin for all these years except 2021 is higher than 15% which is considered as good.
- Adjusted Cash margin shows the higher percentage, which implies that thecompany is having more cash available from sales.
- "Adjusted Return on net worth and reported return on net worth" data indicates that the RoNW ratio is higher for RSWM, which

implies that the company is using shareholders equity more efficiently.

- Return on long term funds for RSWM shows average annual rate of return of 10% for all the years except 2021 which is considered as good ROI for long-term investments in the stock market.
- Findings from liquidity ratios for RSWM are as follows;
- These ratios shows the current ratio as less than or equal to 1 which shows that RSWM do not has sufficient current assets to pay off short-term liabilities.
- Regarding quick ratios the value is again less than 1 for all the years. This implies that RSWM quick assets are not equal to its current assets. This also indicates that RSWM cannot pay off its current debts without selling its long-term assets i.e., it owns fewer quick assets than current liabilities.
- Results show that" There is no significant positive correlation between profitability and liquidity ratios of RSWM".

Analysis of Leverage and Profitability for Reliance Chemotex

Results from Profitability Ratios of Reliance Chemotex are as follows;

- From the data it can be observed that Operating margin for all these years except 2021 is higher than 15% which is considered as good.
- Adjusted Cash margin shows the higher percentage, which implies that thecompany is having more cash available from sales.
- "Adjusted Return on net worth and reported return on net worth" data indicates that the RON ratio is higher for Reliance Chemotex, which implies that the company is using shareholders equity more efficiently.
- Return on long term funds for Reliance Chemotex shows average annual rate of return of 10% for all the years except 2021 which is considered as good ROI for long-term investments in the stock market.
- Results from liquidity ratios for Reliance Chemotex are as follows;
- These ratios show the current ratio as less than or equal to 1 which shows that Reliance Chemotex do not has sufficient current assets to pay off short-term liabilities.
- Regarding quick ratios the value is again less than 1 for all the years. This implies that Reliance Chemotex quick assets are not equal to its current assets. This also indicates that Reliance Chemotex cannot pay off its current debts without selling its long-term assets i.e., it owns fewer quick assets than current liabilities.
- From the correlation test results it can be stated that "There is no significant positive correlation between profitability and liquidity ratios of Reliance Chemotex".

7. CONCLUSION

The textile business can benefit from systematic working capital management and an increase in profitability by selecting the appropriate working capital to profitability ratio. A thorough investigation of two textile industries in Southern Rajasthan has been conducted by the researcher. Textiles are a major contribution to India's exports, accounting for around 11 percent of overall exports, according to the latest estimate from IBEF and another report from ICRA. One of the greatest employers and one of the most labour-intensive industries is textiles. According to textile industry study, India's government should make changes in accordance with these findings, as well as providing low-cost materials, manage imports and exports in a way that benefits the domestic market.

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Corresponding Author

Surabhi Darak*

Research Scholar Accountancy and Business Statistics, Bhupal Nobles' University, Udaipur, India