EVALUATING THE FINANCIAL HEALTH OF TEXTILE COMPANIES IN TAMIL NADU SINCE 2008

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ABSTRACT
The present study has been undertaken to evaluate the financial performance of textile companies of Tamil Nadu. The period of the study is ten years from 2007-08 to 2016-17. Laxmi Mills and Loyal Mills are the selected textile companies of Tamil Nadu. Data has been collected from various published annual reports. Liquidity, profitability, management efficiency, solvency and market valuation ratios have been calculated and analyzed. Independent sample t-test has been applied on the financial ratios of Laxmi Mills and Loyal Mills to examine the difference in various ratios. The findings highlighted that there is no significant difference in net profit ratio, return on net worth, debt equity ratio, and EPS ratio. However, significant differences exist in current ratio, ROCE, and inventory turnover ratio in selected companies during the study period.
Keywords: liquidity, solvency, efficiency, multiple regression, profitability, textile.

Introduction

Financial performance evaluation is the examination and interpretation of a firm's financial positions and operations. It includes analysis of past performance, financial position, liquidity position, solvency position, future prospects for earnings, ability to pay interest and debt on maturity and profitability of an organization. It indicates how a company utilizes its available resources and where does its trade practices stand (Goswami & Sarkar, 2011). Financial appraisal is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. Through a careful analysis of its financial performance, a company can identify opportunities to improve its performance at the department, unit or organization. The main purpose of such investigation is to provide information for user groups especially stakeholders and creditors in order to help them in decision making. It is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of balance sheet and profit and loss account (Gupta, 2014). Furthermore, it is a scientific tool which appraises the real worth of an enterprise and its performance and its pitfalls during a specific period of time. It helps in drawing out the complications of what is contained in the financial statements. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports (refers to an assessment of the viability, stability and profitability of a business, sub-business or project (Pervez, 2016). In the present study, financial performance of two textile mills of Tamil Nadu has been evaluated. A brief profile of selected textile mills has been elucidated in next paragraphs.

Loyal Textile Mills Limited

Loyal Textile Mills is one of the largest composite textile mills in the country. It comprises four spinning mills, two weaving units, one knitting unit, one dyeing house; seven garment manufacturing units, one trading cum retailing company and a joint venture trading company in Italy. The Group's annual turnover is

INR 1,500 crores (US$ 225 Million), out of which, INR 1,200 crores (US$ 180 Million) revenue is generated from exports. It exports products to various countries. In recognition of its continual improvement in export performance, the Government of India has awarded the Loyal Group with the "Star Trading House" status. Over the years, the group has been credited with several accolades and awards in recognition of its consistent export performance. In 2008 and 2013, it was awarded with Tamil Nadu Government Safety Award and with Prashansa Patra (Certificate) for implementing Occupational Safety and Health (OSC) Management System.

Lakshmi Mills Company Limited

It was incorporated as a public limited company in 1910 the late Mr. G. Kuppuswamy Naidu. Lakshmi Machine Works, Lakshmi Synthetic Machinery Manufacturers, and Lakshmi Auto Looms are its associate companies. Sri S. Pathy is the chairman and managing director. It is a composite mill, manufacturing a range of cotton, viscose, blended yarn and a variety of grey and processed cloth. It has four manufacturing units, located at Coimbatore, Singanallur, Kovilpatti and Palladam, all in Tamil Nadu. The company's cloth processing is done by its subsidiary, 'United Bleachers'. It exports cotton yarn and grey cloth to the UK, Germany, Italy, Bangladesh, and Japan. In 1977, Coimbatore Cotton Mills was amalgamated with the company. It has yarn processing facilities at Coimbatore, which includes facilities for mercerizing and bleaching. It was getting wind power generated by M/s.Das Lagerway Wind Turbines Loyald., under a contract since 1997. It has also increased the installed capacity of ring spindles by 64 nos. In 2000-2001, there was an increase in the production of fabrics on account of full commissioning of additional looms.

Review of Literature

Kumar & Priyan (2011) analyzed the performance of public and private life insurance companies in India with the help of Mann Whitney U test and found that LIC continues to dominate the sector. **Ahmaed (2011)** evaluated the financial performance of seven Jordanian Commercial Banks on the basis of financial ratios and regression. The bank size, asset management, and operational efficiency were used as independent variables whereas financial performance (return on assets and interest income size) were used as dependent variable. **Pal (2012)** compared the financial performance of Indian Steel Companies with the application of multiple regression on different financial ratios such as liquidity, solvency, activity and profitability. It was found that the overall profitability depends on financial indicators like liquidity, profitability, activity and financial leverage. Besides, it was suggested that the companies should concentrate upon improving the overall liquidity, solvency and efficiency to enhance their profitability. **Khan and Dalayeen (2016)** in their study evaluated the financial performance of five major cement companies namely UltraTech Cement, Shree Cement, Ambuja Cements Limited, Associate Cement Companies Limited (ACC), and Ramco Cements. The data was collected from the annual reports of the cement companies since 2005-06 to 2014-15 and analyzed by applying one way ANOVA as the statistical tool. All the null hypotheses have been rejected meaning thereby acceptance of alternative hypotheses. The analysis of the data shows that there is a significant difference in selected cement companies in India with respect to gross profit ratio, net profit ratio, current ratio, quick ratio, and debt equity ratio. **Khan (2017)** in the research paper entitled, *"Financial Performance Evaluation Of National Thermal Power Corporation Limited (NTPC)"* examined the financial performance of NTPC for a period of ten years from 2006-07 to 2015-16. Data was collected from various published annual reports and financial statements. Liquidity, profitability, management efficiency, solvency and market valuation ratios were calculated and analyzed. The author used multiple regression technique to evaluate the impact of liquidity, solvency and management efficiency on profitability of NTPC. Return on Capital Employed (ROCE), Return on Assets (ROA), and Return on Equity (ROE) were taken as proxy measures of profitability. The findings highlighted that there was no significant impact of current ratio and inventory turnover ratio on the profitability. However, debt-equity ratio has a significant impact on profitability of NTPC.

Research Gap

The literature review highlights that a limited number of studies have been conducted on financial performance wherein evaluation is made by using different financial and statistical tools. Therefore, the researcher made an attempt to make a comparative analysis of the financial performance of two textile companies of Tamil Nadu. Many Researchers evaluated the performance of various textile companies but still the comparative study of financial performance of Loyal Mills and Laxmi Mills has not been evaluated by any researcher. So, in this study, the researcher evaluates the financial performance of Loyal Mills and Laxmi Mills.

Objectives of the Study

1. To examine the liquidity position of the selected textile companies.
2. To make a comparative analysis of profitability position of the selected textile companies.
3. To evaluate the solvency position of the selected textile companies.

Hypotheses Development

Ho_1: There is no significant difference between the mean value of current ratio of Loyal and Laxmi during the study period.

Ha_1: There is a significant difference between the mean value of current ratio of Loyal and Laxmi during the study period.

Ho_2: There is no significant difference between the mean value of net profit ratio of Loyal and Laxmi during the study period.

Ha_2: There is a significant difference between the mean value of net profit ratio of Loyal and Laxmi during the study period.

Ho_3: There is no significant difference between the mean value of ROCE of Loyal and Laxmi during the study period.

Ha_3: There is a significant difference between the mean value of ROCE of Loyal and Laxmi during the study period.

Ho_4: There is no significant difference between the mean value of return on net worth of Loyal and Laxmi during the study period.

Ha_4: There is a significant difference between the mean value of return on net worth of Loyal and Laxmi during the study period.

Ho_5: There is no significant difference between the mean value of debt equity ratio of Loyal and Laxmi during the study period.

Ha_5: There is a significant difference between the mean value of debt equity ratio of Loyal and Laxmi during the study period.

Ho_6: There is no significant difference between the mean value of inventory turnover ratio of Loyal and Laxmi during the study period.

Ho_6: There is a significant difference between the mean value of inventory turnover ratio of Loyal and Laxmi during the study period.

Ho_7: There is no significant difference between the mean value of EPS ratio of Loyal and Laxmi during the study period.

Ha_7: There is a significant difference between the mean value of EPS ratio of Loyal and Laxmi during the study period.

Research Methodology

The present study focuses on the two textile companies of Tamil Nadu. Secondary data was collected from the annual financial reports of both the companies. The period of the study is ten years i.e. from 2007-08 to 2016-17. Financial performance of Loyal and Laxmi has been analyzed comparatively using financial ratios namely liquidity, profitability and solvency. Independent sample t-test assuming equal variances was applied to examine the difference in financial ratios of both the companies. Liquidity ratios evaluate the ability of a company to pay its short-term debt, whereas long-term solvency ratios investigate how risky an investment in the firm could be for creditors. However, profitability ratios examine the profit-generating ability of the firm based on sales, equity and assets.

- Current Ratio = Current Assets/Current Liabilities
- Net Profit Ratio = Net Profit/Total Sales*100
- Return on Capital Employed=Earnings before Interest and Tax (EBIT)/Total Capital Employed*100
- Return on Net Worth = Net Income /Shareholder’s Equity*100
- Debt Equity Ratio = Long Term Debt/Shareholder’s Fund
- Inventory Turnover Ratio = Cost of Goods Sold /Average Stock

- Earnings per Share = (Net Income – Preferred Dividend)/Number of Equity Shares

Analysis and Interpretation

The financial performance of Loyal and Laxmi has been evaluated from three facets namely liquidity position through current ratio, profitability position via net profit ratio, return on capital employed and return on net worth, long term solvency and activity position through debt equity, inventory turnover and earnings per share. These ratios are computed to make effective judgments about the financial performance of the companies comparatively.

Table 1: Liquidity and Profitability Ratios

Years	Current Ratio (Times)		Net Profit Ratio (%)		Return on Capital Employed (%)		Return on Net Worth (%)	
	Loyal	Laxmi	Loyal	Laxmi	Loyal	Laxmi	Loyal	Laxmi
2007-08	0.99	1.80	-3.32	0.40	-	4.88	-30.80	4.08
2008-09	0.96	1.26	0.24	0.56	3.20	6.34	6.67	7.79
2009-10	1.05	1.16	0.26	0.71	5.57	13.65	7.82	14.36
2010-11	1.02	1.55	0.55	0.66	6.86	10.07	10.67	13.03
2011-12	0.90	2.13	0.62	0.55	6.64	21.53	20.35	14.42
2012-13	0.91	1.90	0.79	0.76	7.67	26.91	23.71	19.55
2013-14	0.88	2.11	0.40	0.38	2.66	16.36	13.76	12.52
2014-15	0.85	2.29	0.50	0.48	3.44	22.20	16.60	16.78
2015-16	0.90	2.53	0.28	0.18	2.53	14.10	8.30	8.84
2016-17	0.82	3.48	0.05	0.11	0.88	7.93	2.42	5.00
Mean	**0.93**	**2.02**	**0.04**	**0.48**	**1.93**	**14.40**	**7.95**	**11.64**
S.D.	**0.07**	**0.67**	**1.20**	**0.22**	**8.07**	**7.37**	**15.10**	**5.06**
Variance	**0.01**	**0.45**	**1.44**	**0.05**	**65.17**	**54.32**	**228.00**	**25.64**

Source: Annual reports of selected Companies since 2007-08 to 2016-17

Table 1 shows the financial ratios of Loyal and Laxmi. The short term liquidity position of Laxmi is quite satisfactory as the mean value of current ratio is above to the standard while Loyal has not avail a satisfactory position during the study period. Current ratio of Laxmi was 1.80 times as compared to Loyal which is 0.99 times for the year 2007-08. It means short term solvency of Loyal was inadequate. Laxmi has improved its liquidity position in later study period and its current ratio stood at 3.48 times in 2016-17. High current ratio highlights that there is a lack of management expertise in deployment of surplus funds. The current ratio of Loyal is deteriorated further and for the alarming figure of 0.82 times in 2016-17, which reveals that the company is continuously facing liquidity crunch. However, the current ratio of Laxmi shows high variability as its standard deviation is 0.67 which indicates a high fluctuation in current ratio unlike the standard deviation of Loyal stood at 0.07 only.

The profitability position (in terms of sales) of both companies is not satisfactory as the mean value of net profit ratio is 0.04 and 0.48 percent. The average net profit ratio of Laxmi is 0.48 per cent which reveals the low profit margin. However, the net profit ratio of Loyal is even worse at just 0.04 percent. Besides, there is a high fluctuation in the profitability of Loyal which indicates by standard deviation of 1.20 as compared to the standard deviation of 0.22 of Laxmi a relatively stable value.

ROCE is satisfactory in Laxmi because it fetched a comfortable mean return on the invested fund at 14.40 per cent whereas ROCE is a trouble area for Loyal with its mean value is as low as 1.93 per cent that is below even the risk free return. On comparing the variability in terms of return on capital employed for both the companies, it is found that the variability is high in both Loyal and Laxmi at 8.07 and 7.37 respectively. Nevertheless, Return on net worth of Laxmi (11.64) is again higher than Loyal (7.95) with the variability of 5.06 and 15.10 respectively. It indicates that the return of Loyal contains high risk factor as compare to Laxmi despite having low return on net worth.

Table 2: Solvency and Activity Ratios

Years	Debt Equity Ratio (%)		Inventory Turnover Ratio (Times)		Earnings Per Share (Rs)	
	Loyal	Laxmi	Loyal	Laxmi	Loyal	Laxmi
2007-08	0.53	0.29	35.27	49.95	-27.72	5.01
2008-09	1.08	0.60	62.03	56.51	6.58	10.20
2009-10	0.41	0.41	40.07	139.44	8.34	21.43
2010-11	0.56	0.61	21.86	66.35	12.98	21.66
2011-12	2.06	1.28	25.86	132.13	29.43	25.36
2012-13	2.09	3.10	24.39	47.91	20.74	40.10
2013-14	4.17	3.83	13.53	63.99	13.08	28.04
2014-15	3.83	4.01	37.99	21.20	17.82	43.25
2015-16	2.28	4.41	15.22	106.58	9.41	1.22
2016-17	2.99	2.41	56.60	71.75	2.75	0.77
Mean	**2.00**	**2.10**	**33.28**	**75.58**	**9.34**	**19.70**
S.D.	**1.36**	**1.64**	**16.41**	**38.32**	**15.12**	**15.22**
Variance	**1.86**	**2.71**	**269.26**	**1468.29**	**228.69**	**231.68**

Source: Annual reports of selected Companies since 2007-08 to 2016-17

Table 2 exhibits the solvency and activity ratios of Loyal Mills and Laxmi Mills. The mean value of debt equity ratio is 2.00 and 2.10 for Loyal and Laxmi respectively with high standard deviation. The mean value of inventory turnover ratio of Loyal and Laxmi is 33.28 and 75.58 respectively which shows that inventory turnover of both the companies is high with inventory turnover ratio of Laxmi is more than double of Loyal. Therefore, inspite of having low profit margins companies, Laxmi manage to get good return on investment. Earnings per share of Laxmi with mean value of 19.70 is again more than double the mean earnings per share of Loyal which is 9.34. However, EPS of both the companies experienced a high degree of fluctuation with standard deviation of 15.22 and 15.12 for Laxmi and Loyal respectively.

Short term liquidity position of Laxmi is satisfactory as compared to Loyal. Net Profit of both the companies shows poor performance and ROCE of Laxmi is comparatively better than Loyal. However, Return on net worth also depicts the sound performance of Laxmi. Long term solvency position of both the companies is same as they used debt in their operations. Inventory turnover ratio of Laxmi is more than Loyal while earnings per share of Laxmi is comparatively better than Loyal but in 2010-11 it declined due to stock split announcement by Laxmi.

Table 2: Independent Sample t-test Assuming Equal Variance

Ratios	Companies	N	Mean & SD	T value	P Value	Results
Current Ratio	**Loyal**	10	0.93 ± 0.07	13.524	0.000	Rejected
	Laxmi	10	2.02 ± 0.67			
Net Profit Ratio	**Loyal**	10	0.04 ± 1.17	-4.365	0.266	Accepted
	Laxmi	10	0.48 ± 0.22			
ROCE	**Loyal**	10	1.93 ± 8.07	9.259	0.002	Rejected
	Laxmi	10	14.40 ± 7.37			
Return on Net worth	**Loyal**	10	7.95 ± 15.10	12.208	0.474	Accepted
	Laxmi	10	11.64 ± 5.06			
Debt Equity Ratio	**Loyal**	10	2.00 ± 1.36	5.559	0.890	Accepted
	Laxmi	10	2.09 ± 1.64			
ITR	**Loyal**	10	33.28±16.41	-1.168	0.005	Rejected
	Laxmi	10	75.58 ± 38.32			
Earnings per Share	**Loyal**	10	9.34 ± 15.12	24.405	0.144	Accepted
	Laxmi	10	19.69 ± 15.23			

Source: Output of SPSS_20

Table 2 exhibits the results of independent sample t-test applied on the financial ratios of Loyal and Laxmi. *Firstly*, the t value of current ratio is 13.524 i.e. significant. Therefore, the null hypothesis is rejected and it means that there is a significant difference exists between the mean value of current ratio of Loyal and Laxmi. *Secondly*, the t value of net profit ratio is -4.365 which is insignificant. Therefore, null hypothesis has been accepted and it can be said that net profit ratio of both the companies is same. *Thirdly*, the t value of ROCE is 2.959 which is significant meaning thereby significant difference exists in the mean value of return on capital employed of Loyal and Laxmi. *Fourthly*, the t value of Return on Net worth is 12.208(insignificant) which leads to the acceptance of null hypothesis. It can be said that there is no significant difference exists in the mean value of Return on Net worth of both the companies. *Fifthly*, the t value of debt equity ratio is 5.559 which is insignificant. Therefore, null hypothesis has been accepted and it can be said that debt equity ratio of both the companies is same. *Sixthly*, inventory turnover ratio is and it is -1.168 (significant) which depicts that there is no significant difference in inventory turnover ratio of Loyal and Laxmi. *Seventhly*, the t value of EPS is 24.405 which is insignificant. Therefore, null hypothesis has been accepted and it can be said that earning per share ratio of both the companies is same.

Conclusion

The present study examined the financial performance of two textile mills of Tamil Nadu. Data was collected, analyzed and interpreted with the help of different financial ratios available in annual reports since 2007-08 to 2016-17. After analysis of data, it has been revealed that the short term solvency position of Laxmi Mills is better than Loyal Mills. The net profit ratio does not show good indication regarding profitability of both companies. The main reason behind earning low profit is very high cost of sales and other related expenses. The profitability position of both the companies is not comfortable in terms of sales but the ROCE and return on shareholders' fund is satisfactory in Laxmi as compared to Loyal. Moreover, debt equity ratio of both the companies stands on approximately two, which indicates that the business of these companies is going on the basis of trading on equity. Debt equity ratio is deteriorated faster than Loyal. However, Laxmi improved over Loyal (2.99) to 2.41 due to fresh equity infusion in the year 2011. So far liquidity position is concerned; it is quite satisfactory in Laxmi Mills as the mean value of current ratio is 2.02. To conclude, it can be said that financial position of Laxmi Mills is better than Loyal Mills but both the companies should improve their overall financial performance.

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