



A study on ratio analysis of top five textile companies in India

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Abstract

The main aim of this research paper is to understand the Profitability, Financial position, Liquidity and Assets Management of selected Textile Companies and to provide recommendations for improving their financial gain, Liquidity and Assets Management position of the selected Textile Companies. The current research analysis is made for the time period of five year from 2015-'16 to 2019-'20. Five companies were selected for this study and six ratios were calculated in the research paper. Gross Profit Ratio, Net Profit Ratio, Return on Capital Employed Ratio, Return on Net worth Ratio, Current Ratio and Quick Ratio. Research applies the test hypothesis ANOVA. The researcher finds the major findings of this study indicate that there are.

Keywords: gross profit ratio, net profit ratio, roce, return on net worth ratio, current ratio, quick ratio

Introduction

A difference between revenues and expense is called a profit, generally for one year, ratio is define a company's current year position in market. GPR, NPR, ROCE, ROI, etc ratios are to measure the operating competence of the company. Furthermore management, investors and owners of the company are interested in the analyse of the profitability of the firm. If profits are sufficient, there will not difficulty for investors to get payment of interest and repayment of principal. Owner want to get require rate of return on investment. The finance manager should interpret the efficiency of the company, in terms of profit, Liquidity means its market value. While cash in hand is most important liquid asset. In general, items with reduced liquidity fall into two categories: Accounting liquidity and Market liquidity. Liquidity means use of money for invest and pay debts. The access liquidity easy to use for purchase a financial assets or security may be converted to cash without remarkable loss of value. Liquidity is critical since it demonstrates a company's ability to satisfy its financial commitments and unpredicted charges.

Textile Industry

Textile is the 2nd most important need of human life. For some centuries, the Textile Industry is one of the oldest industry of the Indian market. It involves many activities to production of raw materials i.e. Wool, Silk, Cotton and Jute to providing high value added products such as garments, fabrics and furnishings. It is uses a great range of raw fibres different like as silk, cotton, wool, jute to man-made, fibres etc i.e., viscose, acrylic, polyester, etc. Cotton word taken from Sanskrit word "KARPASA". This word is also relevant Greek "Karpooos" Latin "Carbasus". Since ancient times, Indian is known for their Textile Industry. Modern textile industry born in India before independence. The 1st textile mill established near Calcutta in India 1818. The spread of the textile industry to Ahmedabad inn Gujarat. This industry made rapid progress in 2nd half of 19th century. After China, India is the 2nd largest manufacturer o textile and clothing in the world.

Review of Literature

- (Marimuthu, 2012) in his study, "Financial performance of Textile industry: A study of listed company of Tamil Nadu" and its explores states that Coimbatore is known as metropolis of South India. Erode provides 76% Textile market in India and 56% of Knitwear exports come from Tirupur. Selected company invest on the basis of current performance compared with previous year or with other company. Decision making, additional investment, liquidity position changes in working capital depends upon the performance & return of company reports. Funds are highly required for day-to-day business operations of the firm and how to utilize it and in what should avoid loses from the investment is discussed here plus, it happens by effective management. The main purpose of this study to analyze and interprets the performance of textile industry in the selected companies from Tamil Nadu. The data collected from the CMIE and used the tools of ANOVA and descriptive statistics. The researcher concluded that the five companies these two companies i.e., KPR mills ltd. and Rajapalayam mills ltd. financial position was good.
- (Kulkarni, 2012) He analysed the Gujarat Textile Industry working capital evaluation on selected five companies for the Eleven years and performance ratio analysis and interpretation of financial data. By this studied he conclude that the company's financial performance was better and effective as well as current and quick ratio. Current asset on total asset, sales, turnover, etc. In this study researcher apply the ANOVA test.

- (Madhumathy, 2016) – In his researches on “A Study on Capital structure and Financial Performance of Indian Textile Industry.” Research used secondary data in his study of Ten Textile Companies for 2004-'05 to 2013-'14. Which was collected from annual reports of selected textile companies, websites, capitalise plus database, different journals, books and different publication magazines and analysed it by percentage and multiple correlation tests. Researcher identified the effect of capital structure on financial performance of Indian textile companies.
- (Gupta, 2017) in his research study in Indian textile industry has played a vital role in growth and upliftment of country. It is the sector that contributed approx, 13% of total exports, 14% to industrial production, 4% to GDP of the country. The sector has offered employment to around 45 million people, by acting as one of the biggest employment generator sector. In spite of having such a considerable records, companies in textile industry are facing many problems like obsolete machinery, shortage of power, raw material, low productivity of labour and competition in foreign market. Researcher taken a last 5 years. He taken secondary data, using various statistical tools and techniques such a ratio analysis and test of one way ANOVA.
- (Kaniz Fatema, 2018) in his Research paper in analyzed the textile sector of Bangladesh has got a great aspect than other in terms of growth and foreign exchange earnings. It makes important contribution to the national economy by creating liberal employment opportunities and reducing poverty through socioeconomic development. Researcher focuses in his research paper on financial strength of the textile sector in Bangladesh and to know that up to what extent textile sector has used their available researches effectively. Researcher used comparative ratio analysis techniques. The liquidity and solvency position is almost the same in all the textile companies.
- (Dharshini, 2019) in his research report the Indian textile sector is growing at a quick speed and getting international recognition. It is also taking sufficient steps the development of export oriented products, attracting new investment both national and international. This sector has important of employment generation, industrial, social and economical in nature. These studies focus on financial performance and analysis of top textile industries in India and guess the trend value of selected textile industry. This study would help the investors, shareholders, managers, policymakers, researcher and people who are involve in financial decision.

Objectives of the study

- To study the growth of top five textile companies in India.
- To analyze overall the financial performance of sample textile companies in India.
- To know the relationship between selected ratios.
- To give suggestions for further improvement in weak performance areas to sample textile companies in India.
- To analyze the return on equity of selected textile companies.
- There are no sources in the current document.

Data Analysis and Interpretation

Gross Profit Ratio (%)

Gross Profit Ratio is the difference between sales and manufacturing.

$$\text{Gross Profit Ratio} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} \times 100$$

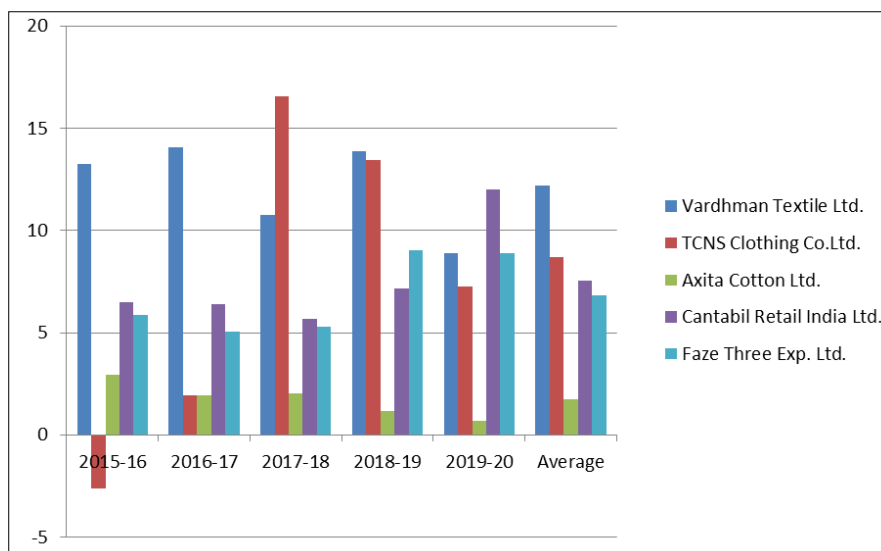


Fig 1

Table 1: Gross Profit Ratio (%):

year	Vardhman Textile Ltd.	TCNS Clothing Co. Ltd.	Axita Cotton Ltd.	Cantabil Retail India Ltd.	Faze Three Exp. Ltd.
2015-16	13.27	-2.62	2.93	6.5	5.88
2016-17	14.08	1.91	1.91	6.4	5.07
2017-18	10.76	16.54	2.02	5.67	5.28
2018-19	13.87	13.46	1.14	7.17	9.03
2019-20	8.9	7.23	0.69	12.02	8.87
Average	12.176	8.716	1.738	7.552	6.826

(Source: www.moneycontrol.com)

Interpretation

The above table and chart shows that the during the year 2015-'16 to 2019-'20 highest average Gross Profit Ratio in Vardhman Textile Limited was (12.176%) while lowest in Axita Cotton Limited was (1.738%).

Net Profit Ratio (%)

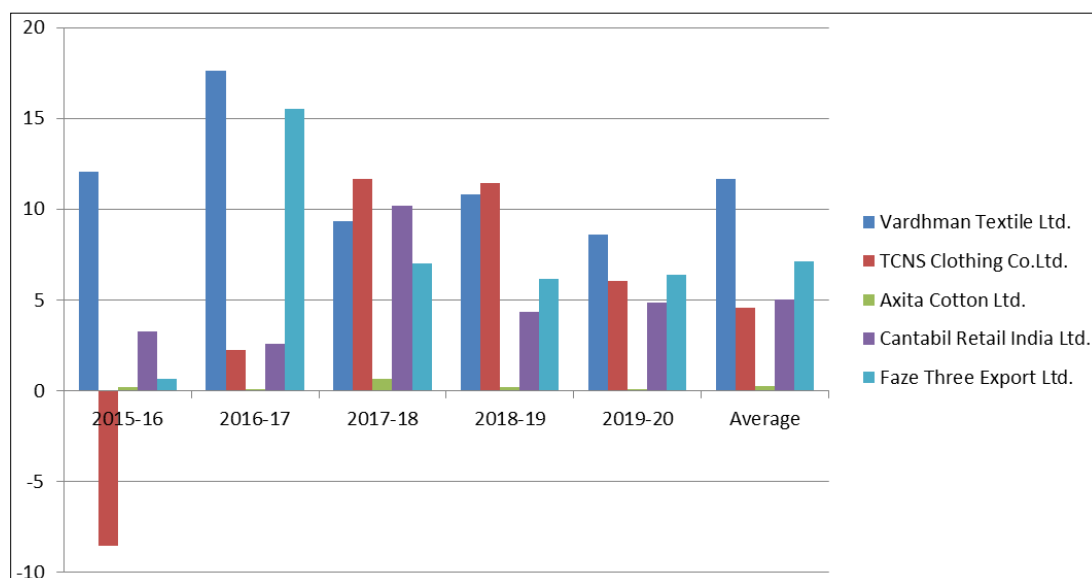
Net Profit Ratio is obtained when operating expenses, interest and taxes are subtracted from the gross profit ratio.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

Table 2: Net Profit Ratio (%):

year	Vardhman Textile Ltd.	TCNS Clothing Co.Ltd.	Axita Cotton Ltd.	Cantabil Retail India Ltd.	Faze Three Exp. Ltd.
2015-16	12.04	-8.54	0.18	3.26	0.63
2016-17	17.6	2.25	0.03	2.59	15.53
2017-18	9.32	11.69	0.66	10.18	7.02
2018-19	10.84	11.44	0.21	4.33	6.13
2019-20	8.62	6.04	0.07	4.86	6.38
Average	11.684	4.576	0.23	5.044	7.138

(Source: www.moneycontrol.com)

**Fig 2**

Interpretation

The above statistical data shows that the companies five year average Net Profit Ratio highest in Vardhman Textile Limited was (11.684%) and lowest in Axita Cotton Limited was (0.23%).

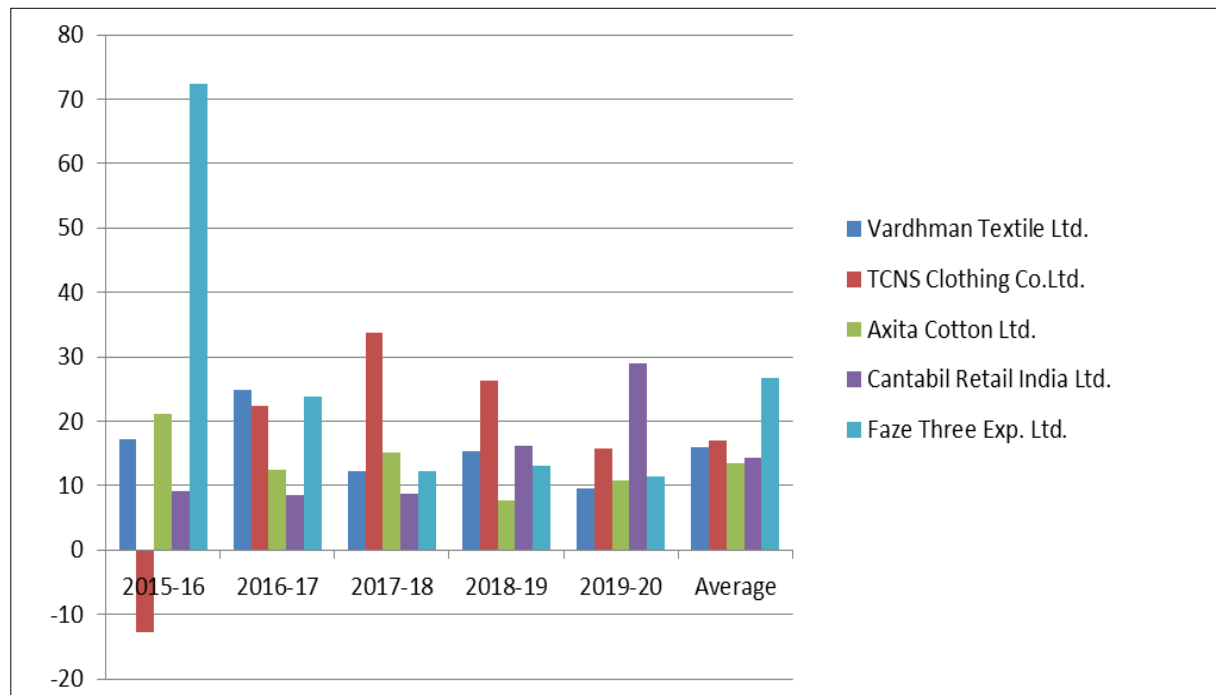
Return on Capital Employed Ratio (%)

Return on capital employed is a measured of returns that a company from the capital employed. ROCE indicates the efficiency and profit generating ability of a company's capital investment.

Table 3: Return on Capital Employed Ratio (%):

year	Vardhman Textile Ltd.	TCNS Clothing Co. Ltd.	Axita Cotton Ltd.	Cantabil Retail India Ltd.	Faze Three Exp. Ltd.
2015-16	17.21	-12.72	21.1	9.12	72.4
2016-17	24.82	22.31	12.46	8.52	23.91
2017-18	12.28	33.7	15.17	8.66	12.25
2018-19	15.43	26.21	7.62	16.13	13.01
2019-20	9.6	15.79	10.83	29.02	11.44
Average	15.868	17.058	13.436	14.29	26.602

(Source: www.moneycontrol.com)

**Fig 3****Interpretation**

The above numerical data shows that in the ROCE ratio highest in the year 2019-'20 in Cantabil Retail India Limited (29.02%) and lowest in the year 2015-'16 in TCNS Clothing Limited (-12.72%).

Return on Net worth Ratio (%)

The return on equity is net profit after taxes divided by shareholder's equity which is given by net worth. ROE indicates how well the firm has used the resources of owners. In fact, this ratio is one of the most important relations in financial analysis.

$$\text{Return on Net Worth} = \frac{\text{Profit After Tax}}{\text{Net Worth}} \times 100$$

Table 4: Return on Net Worth Ratio (%)

year	Vardhman Textile Ltd.	TCNS Clothing Co. Ltd.	Axita Cotton Ltd.	Cantabil Retail India Ltd.	Faze Three Exp. Ltd.
2015-16	18.33	-85.86	5.19	6.54	-4.03
2016-17	25.12	5.6	1.11	4.79	39.4
2017-18	11.78	24.08	25.43	19.77	14.49
2018-19	13.28	21.24	2.59	10.93	12.42
2019-20	9.62	10.51	1.95	13.91	9.45
Average	15.626	-4.886	7.254	11.188	14.346

(Source: www.moneycontrol.com)

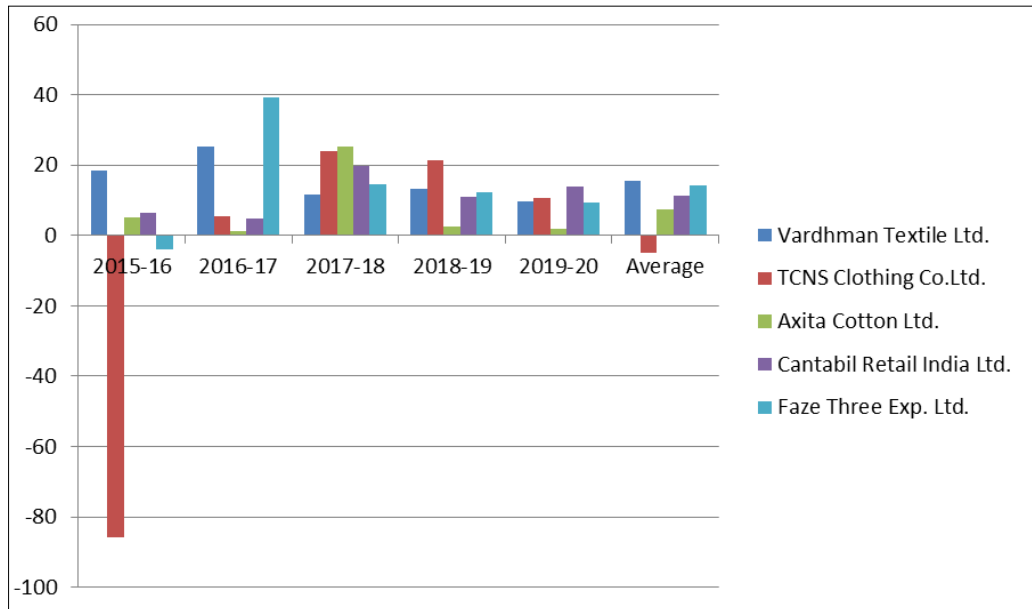


Fig 4

Interpretation

By the above information saw we can say that average ROE ratio highest in Vardhman Textile Limited (15.626%) while lowest in the TCNS Clothing Company Limited (-4.886%).

Current Ratio (%)

Current Ratio is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Table 5: Current Ratio (%)

year	Vardhman Textile Ltd.	TCNS Clothing Co.Ltd.	Axita Cotton Ltd.	Cantabil Retail India Ltd.	Faze Three Exp. Ltd.
2015-16	1.03	0.96	1.86	0.91	0.51
2016-17	0.86	2.46	4.25	0.91	0.92
2017-18	1.34	3.55	0.78	1.11	0.89
2018-19	1.35	3.52	1.00	1.14	1.01
2019-20	1.62	1.35	1.01	0.51	1.18
Average	1.24	2.368	1.78	0.916	0.902

(Source: www.moneycontrol.com)

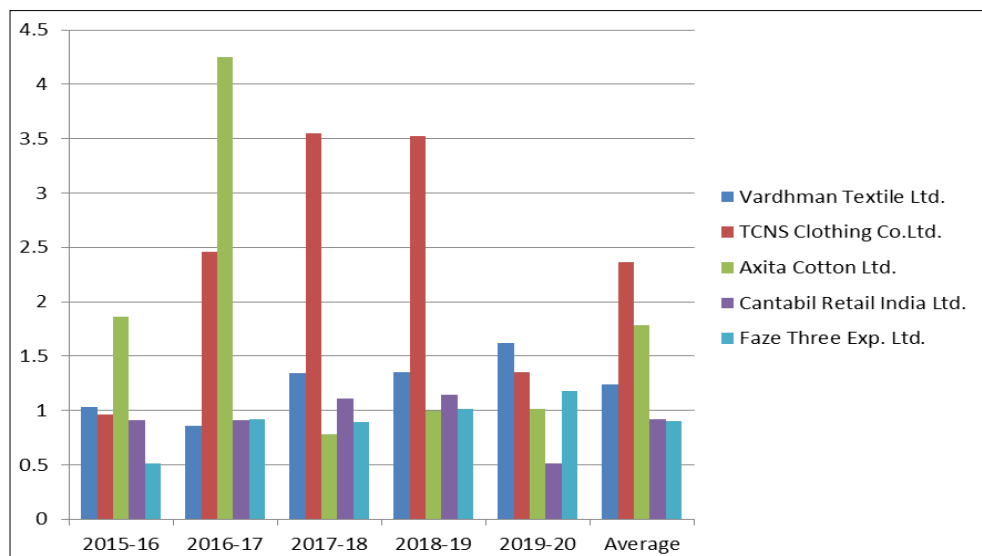


Fig 5

Interpretation

Read the following numerical data we can say that during the year 2015-'16 to 2019-'20. Average current ratio were Vardhman Textile Limited (1.24%), TCNS Clothing Company Limited (2.368%), Axita Cotton Limited (1.78%), Cantabil Retail India Limited (0.916%) and Faze Three Export Limited (0.902%).

Quick Ratio (%)

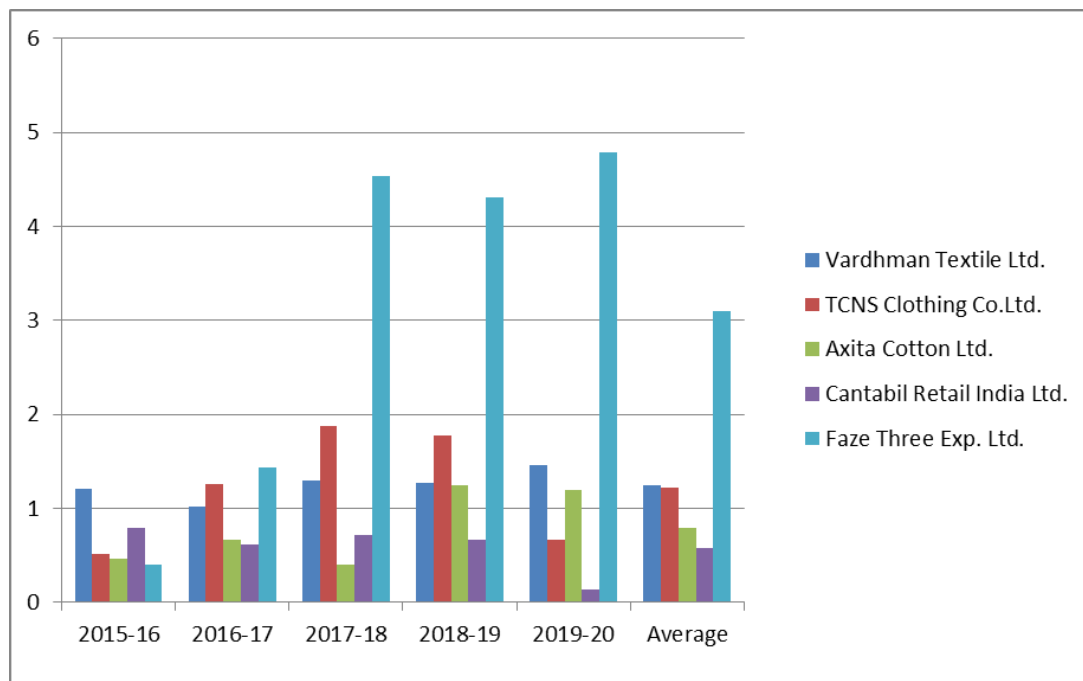
Quick ratio, also called acid-test ratio, establishes a relationship between quick, or liquid, assets and current liabilities.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

Table 6: Quick Ratio (%)

year	Vardhman Textile Ltd.	TCNS Clothing Co.Ltd.	Axita Cotton Ltd.	Cantabil Retail India Ltd.	Faze Three Exp. Ltd.
2015-16	1.21	0.51	0.46	0.79	0.40
2016-17	1.02	1.26	0.67	0.61	1.44
2017-18	1.29	1.88	0.40	0.72	4.53
2018-19	1.27	1.78	1.24	0.66	4.31
2019-20	1.46	0.67	1.2	0.13	4.79
Average	1.25	1.22	0.794	0.582	3.094

(Source: www.moneycontrol.com)

**Fig 6****Interpretation**

See the above table and chart we conclude that the highest quick ratio in Faze Three Export Limited (4.79%) in the year 2019-'20 and lowest in Cantabil Retail India Limited (0.13%) in the same year.

Findings**Table 7**

Ratio	Calculated Value	Table Value	Ho Accepted/ Rejected
Gross Profit Ratio	5.09	2.87	H ₀ Rejected
Net Profit Ratio	3.63	2.87	H ₀ Rejected
Return on Capital Employed Ratio	0.62	2.87	H ₀ Accepted
Return on Net worth Ratio	0.17	2.87	H ₀ Accepted
Current Ratio	2.64	2.87	H ₀ Accepted
Quick Ratio	0.57	2.87	H ₀ Accepted

Suggestions

- Vardhman Textile Limited's inventory turnover ratio is low. So, company should increase their sales.
- TCNS Clothing Company Limited should increase their ability to generate profit without needing as much capital.
- Axita Cotton Limited's Gross Profit Ratio is very Low. So, company should increase their sales and decrease their operating expenses, interest and taxes.
- Cantabil Retail India Limited's average current ratio is not better. So, company should increase their short-term solvency. Current Ratio should every 1 rupee of current liabilities.
- Faze Three Exports Limited should take a decision and increase a short-term solvency. Current Ratio below 1 show that the company is not in good financial health.

Conclusion

Researcher has tries to know the profitability of all these companies for the purpose of analysis. Researcher has to use various ratios and statistical tools for this research. Researcher has to taken last five years annual reports of the selected textile companies. In the data analysis and interpretation researcher has see that the present except profitability and liquidity all the matter of these factors are favourable the net profit of these industry is more favourable. It is effect of the other matter of these textile companies.

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