

An Analysis on Gross and Net Profit Ratio of Cotton Mills in Coimbatore for 2016 – 2019

**Dr. V. Sridhar, Associate professor.
PG and Research Department of Management Studies.
Hindustan College of Arts and science. Coimbatore.
sridharvembu10@gmil.com**

Abstract

Indian textile industry is the second largest industry in the world after China and it is self-reliant and independent industry and has greater diversification and versatility. The textiles and garments industry is the second-largest employer in India after agriculture as it directly employs 35 million people and indirectly provides a livelihood to an additional 88 million. That necessitates a study of performance of the Tamil Nadu cotton mills in perspectives of their profitability, cost and the growth to cater to the demand. Hence the present study has raised the following issues that what are the factors influencing the profitability of selected Textile Mills. This study is secondary in nature and is taken from corporate data base (Prowess) maintained by Centre for Monitoring Indian Economy (CMIE) which comprised of 34 listed cotton textile mills of which 16 Cotton Textile mills selected. The financial health play significant role in the successful functioning of a firm. Therefore the financial health of textile mills has to be subject to empirical investigation. However the profitability of the selected few companies in Tamil Nadu during study period is satisfactory. The study is especially useful for policy makers, cotton spinning mills, investors and researcher.

Key Words: Cotton Mills, Gross Profit Ratio and Net Profit Ratio

1.1. Introduction

Indian textile industry is the second largest industry in the world after China and it is self-reliant and independent industry and has greater diversification and versatility. The textiles and garments industry is the second-largest employer in India after agriculture as it directly employs 35 million people and indirectly provides a livelihood to an additional 88

million. As per AEPC, this industry contributes nearly 3 to 4 per cent to GDP; Next to agricultural sector, it generates employment for more than 35 million people and excise collections nearly 9 per cent and it contributes to 16 percent share of the country's export. It contributes to nearly 14 per cent of the total industrial production of the country.

The prosperity of a country depends to a larger extent on performance of the economy. A major portion of any country's gross domestic product is contributed by its corporate sector. In this context, the Indian Cotton spinning mills occupies an important place in the economy of the country because of its contribution to the industrial output, employment generation and foreign exchange earnings. This study focuses on cost and profitability of Tamil Nadu textile industry, for the reason that more than 20 per cent of the units located in Tamil Nadu as well as exporting highly 65 per cent of apparel and knitwear from Coimbatore.

The Indian textile industry is the second largest in the world export next to China. Indian textile account for 38 per cent of the country's total exports, therefore it is a very important industry. To sustain the growth, it is imperative the textile industry produces goods of high quality at reasonable prices. Therefore, the textile industry sector has an integral role to play in the growth of India's export industry. The textile prices are increasingly competitive worldwide as more developing countries enter the global textile trade. An output is obtained by the combined input of a number of factors like labour, material, capital, land and organization.

1.2. Textile industry in Tamil Nadu

Coimbatore, Tirupur, Salem, Erode, and Karur, the major cities of Tamil Nadu have their contribution in the growth of textile and garment industry. Tirupur, which was earlier a part of Coimbatore district, drew attention of the whole world in the early nineties. Coimbatore and Tirupur districts have a large number of small and medium units engaged in textile and garments manufacturing activities. The declared policy of the government was to encourage the small-scale sector as it was expected that the employment generation of the small sector was much greater than that of the large units. In addition to the local population, an additional 250,000 people (approximate) come in from nearby towns to work in Coimbatore and Tirupur's booming textile industry.

Tirupur is a job-working centre and not a brand exporter. This means that most of the exporters take up job work for brand marketers in developed countries and do not sell their

own brands. This also means that the buyer in Europe or the USA can easily change his source of supply. More than 35 countries are buying from Tirupur. Tirupur is the only city, which is doing about 56 per cent of knitwear export alone. Hence, the contact that the exporter has with the buyer is the most important business asset. It is estimated that “Coimbatore, Tirupur, Salem, and Erode, combined together, generate a revenue of more than Rs.25, 000 crores; in it the share of only Tirupur is Rs.11, 000 crores”. The textile, especially the garments industry, has an influencing association with the global economy.

1.3. Statement of Problem

The Indian textile industry is severely affected in the current global crisis and it is absolutely imperative for the government to prepare a long – term strategy for the growth and export of textiles. The Indian textile and apparel & garment industry is the single largest industry in India contribution about 14 per cent of the industrial production. 17 per cent to the total export earnings and 4 per cent to the “Gross Domestic Product” (GDP). Rising prices of raw cotton have become a contentious issue for the industry. The government is reluctant to reduce the prices paid to cotton farmers as suicides have been widespread in cotton-growing areas.

The profitability is the most powerful motivational factors in any business and the taste of the management is maximization of profits. The efficiency of the business is measured by the amount of profit earned. The greater the profit, more efficient is the business considered to be. Profitability is a relative term and its measurement can be achieved by profit and its relation with the other objects by which the profit is affected. It is the test of efficiency and measure of central. The profitability may be defined as the ability of a given investment to earn a return from its use. This ability is referred to as earning power or operating performance of the concerned investment.

A company should be able to produce adequate profit on each rupee of sales. If sales do not generate sufficient profit, it would be very difficult for firm to cover operating expenses like raw material, power, fuel and interest charges and as a result will fail to earn any Profit for owner. The profitability of the company should also be evaluated in terms of firms’ investment in assets and in terms of capital contributed by creditors and owner. If the company is unable to earn a satisfactory return on investment is its survival is threatened. That necessitates a study of performance of the Tamil Nadu cotton mills in perspectives of

their profitability, cost and the growth to cater to the demand. Hence the present study has raised the following issues that what are the factors influencing the profitability of selected Textile Mills.

1.4. Objectives of the Study

To examine the profitability of selected Cotton Spinning Mills in Coimbatore.

1.5. Scope of Study

The study aims to make an analysis of cost and profitability of cotton spinning mills in Tamil Nadu. For the theoretical background of the textile company's growth and structure has been studied. The study examines the cost structure and analyzing profitability of selected cotton spinning mills in Tamil Nadu. The efficiency of the management in accomplishing its goal of Controlling costs and maximize the profit is measured by certain model. Further the study includes the financial variables which influence profitability.

The analysis of cost structure covers trends, ratio related to sales of selected cotton spinning mills for a period of 10 years from 2004 to 2013. On the other hand the profitability focused on profit in relation to sales and profit in relation to investment. The profit is taken as Operating profit (PBIT) as well as Net profit, whereas the investment is taken as total assets, Capital employed or equity. It further examines factors that determine profitability and analysis financial health of cotton spinning mills pre and post financial crisis.

1.6. Significance of the Study

Textile sector is the backbone of the economy of India, hence this study will help us understand the effects of cost, profitability and factor influencing which in turn would help in suggesting financial reforms for the textile sector in future. As mentioned earlier Profitability analysis is the crucial factor in all enterprises. Improper financial management leads to less utilization available resources and making the enterprise risk. The study has both Academic and practical values. It helps the academicians and researchers to develop new ideas for the future study. The study focuses on Cost and profitability of Cotton Spinning Mills in Tamil Nadu. This study will be useful to the management while taking investment decision and anticipating future condition identify areas of strength and intrinsic value. This study may

also be useful for mills growth in future. The study will act as a guide to investors in their Investment decisions.

1.7. Research Methodology

The design of present study is descriptive, analytical and conclusive. The study used the facts and information already available them to make an evaluation of cost and profitability. The study is based on secondary data. Secondary data have been collected from the official directory of the Bombay stock exchange and PROWESS provided by Center for Monitoring Indian Economy (CMIE) for the period ranging between 2016 and 2019. The published annual financial reports of the company's and other reports like the company's magazines, published books and websites were also used for the purpose of the study. The company wise information has been collected on a number variable during the period from 2016 - 2019, covering 3 years.

For this study is secondary in nature and is taken from corporate data base (Prowess) maintained by Centre for Monitoring Indian Economy (CMIE) which comprised of 34 listed cotton textile mills of which 16 Cotton Textile mills selected. The study used purposive sampling to select mills around 47.06 % of the population using the following Criteria.

1. The list of cotton textile mills are listed in Bombay Stock Exchange (BSE)
2. It has made compiled for 34 cotton spinning mills in Tamil Nadu of which only 16 mills have financial data available for continues period of three years from 2016 - 2019. Such companies have been selected as sample companies.

The list of select cotton spinning mills is Ambika Cotton Mills Ltd, Bannari Amman Spinning Mills Ltd, Gangotri Textiles Ltd, Kandagiri Spinning Mills Ltd, Lambodhara Textiles Ltd, Maris Spinners Ltd, Prime Urban Development India Ltd, Rajapalayam Mills Ltd, Salona Cotspin Ltd, Sambandam Spinning Mills Ltd, Shiva Texyarn Ltd, Sri Ganapathy Mills Co. Ltd, Sri Lakshmi Saraswathi Textiles (Arni) Ltd, Super Sales India Ltd, Super Spinning Mills Ltd & V T X Industries Ltd.

The cost and profitability analysis of the Cotton Textile Mills can be measure by a number of indicators. In order to identify the prominent factors responsible for the cost and profitability of Cotton Textile mills and also to measure the extent of influence of the

independent variables on the dependent variable, the following tools were applied by the researcher descriptive statistics (Mean, Standard Deviation & Coefficient of Variation)

1.8. Limitations of the study

The study is subject to the following limitations

- A few of the sample mills have not been following uniform accounting period. In such cases, the financial data have been so organized that they relate to the twelve months of relevant accounting year.
- The study concentrates only analysis of quantitative financial data. qualitative data are not included such as external environment, demand, supply etc.,
- The study is based on secondary data collected from prowess developed by Centre for monitoring Indian Economy (CMIE). The limitation of the secondary data if any will influence the study.
- The present study analyzed only accounting profitability and its factors.

1.9. Reviews of Literature

Manjhi Rakesh Kumar (2013)²² analyzed Liquidity Management and Tradeoff between Liquidity, Risk and Profitability at Garden Silk Mills Ltd: An Empirical Study. The study period covered ten years i.e. from financial year 1999–2000 to 2000-2009. The study found that inventory turnover ratio showed a high degree of negatively correlated with return on net worth & return on capital employed, where the investment turnover ratio are negatively correlated with return on net worth. Other variables are positively correlated but not connected properly. Hence the study of the impact of liquidity ratios & profitability ratios on management efficiency shows negative impact.

Dr. Ojera, Patrick , Otieno Simey and Nyakundi Finlay Nyanyuki (2013)¹⁵⁴ had studied the liquidity, profitability and solvency position of most Small and Medium enterprises (SMEs) .Data for the study covered the period 2009-2011 and was obtained from the financial statements of three SMEs which were purposively sampled from the SMEs operating in Kisii Municipality. The sampled SMEs were those which had financial statements for the years under consideration. Data collected

through the analysis of key ratios were analyzed using the mean, standard deviation, coefficient of variation, Student-t test and through the use of the Altman's Z-score model. The findings of the study showed that the liquidity position of the SMEs was on average low; their solvency was low and their financial Health was on average not good. Further, the results show that there is a significant impact of current ratio, quick ratio and Debt to Total Assets ratio on Return on Assets (ROA). Further, the results indicated that the financial health of the SMEs needed to be improved hence the recommendation that SMEs make liquidity, solvency management and financial stability an integral driver of their policy frameworks.

Won-Sik Hwang and Jeong-Dong Lee (2013)¹⁵⁵ analyzed profitability and its distribution in the Korean electricity industry before and after reform by using INPD. The results showed that the Korean electricity industry earned profits mainly by expanding facilities before the reform and by improving productivity after the reform. Consequently, the increasing rates of profit in the two periods from capital and productivity were almost same from the overall point of view of the industry. However, capital productivity growth after the reform was not necessarily desirable in terms of the reserve margin for electricity supply. The analysis of the six power generation subsidiaries showed that the price system in the wholesale electricity market did not reflect the fluctuations in fuel price that caused varying profitability depending on a company's share of base load and general generators. Because most of the potential profits had been cancelled out by the rising fuel costs, company owners did not have much motivation in managing their companies.

1.10. Research Gap

From the above review of empirical works it is cleared that different have approached operational efficiency in different ways in varying level of analysis. These different approaches helped in the emergence of more and more literature on the subject over time. It gives an idea on extensive and diverged works on performance appraisal. It has been noticed that the studies.

On operational efficiency in various sectors provide divergent results over the study period. The main reason for the divergence in the results is the different in the method used for the measurement of factors specially profitability, Cost analysis. It has been noticed that review of empirical works on profitability give an idea on extensive and diverse works on profitability. It facilitates to understand the various structural and non-structural variables that determine profitability.

1.11. Analysis and Interpretation

Gross Profit Ratio

The gross profit margin is used to analyze how efficiently a company is using its raw materials, labour and manufacturing-related fixed assets to generate profits. A higher margin percentage is a favorable profit indicator.

Table 4.11 Gross Profit Ratio

Company Name	2016 - 2019		
	Mean	Sd	Cov
ACM	31.93	2.890	9.050
BASM	26.15	6.305	24.115
GT	17.89	12.336	68.964
KSM	23.50	8.830	37.578
LT	19.70	2.362	11.988
MS	29.21	8.567	29.331
PUDI	32.93	29.966	90.999
RM	30.12	5.711	18.960
SC	22.72	7.869	34.635
SSM	24.10	7.743	32.128
ST	25.29	5.718	22.612
SGM	11.71	7.018	59.948
SLST	16.57	6.982	42.131
SSI	31.71	10.022	31.608
SUSM	19.58	9.259	47.299
VTX	55.81	5.354	9.594
OA	26.18		

Gross profit ratio of sixteen Cotton spinning mills under this study has been compared in the table. Before financial crisis in the year **2016 - 2019**, the overall average is **26.18**. V T X Industries Ltd shows the highest mean value of 55.81, whereas Sri Ganapathy Mills Co. Ltd shows the lowest mean value of 11.71. The co-

efficient of variation of Gross profit ratio ranges between 90.999 per cent and 9.05 per cent. The highest co-efficient of variation is found in Prime Urban Development India limited and the lowest co-efficient of variation is found Ambika Cotton Mills limited.

Net Profit Ratio

Net profit (NP) ratio is a useful tool to measure the overall profitability of the business. A high ratio indicates the efficient management of the affairs of business. There is no norm to interpret this ratio.

Net Profit Ratio

Company Name	2016 - 2019		
	Mean	Sd	Cov
ACM	8.22	3.011	36.623
BASM	3.10	4.033	130.291
GT	-44.54	46.723	-104.907
KSM	-0.09	6.611	-7049.574
LT	1.90	1.713	90.338
MS	-0.21	4.680	-2213.485
PUDI	-12.74	26.609	-208.870
RM	4.58	3.146	68.713
SC	1.48	4.723	319.783
SSM	0.51	5.775	1127.252
ST	2.69	4.988	185.386
SGM	-5.31	6.404	-120.620
SLST	-0.62	5.907	-959.480
SSI	4.56	9.576	209.887
SUSM	-2.82	6.256	-221.529
VTX	-3.35	8.502	-253.506
OA		-2.67	

Net profit ratio of sixteen Cotton Textile mills under this study have been compared in the table, the overall average is -2.67. Ambika Cotton Mills Ltd shows the highest mean value of 8.22, whereas Gangotri Textiles Ltd shows the lowest mean value of - 44.54. The co-efficient of variation of ratio of Net profit ranges between 1127.252 per cent and -7049.574 per cent. The highest co-efficient of variation is found in Kandagiri Spinning Mills Ltd and the lowest co-efficient of variation is found Ambika Cotton Mills ltd.

1.12. Conclusion

The present study entitled “**An Analysis on Gross and Net Profit Ratio of Cotton Mills in Coimbatore for 2016 – 2019**”. The financial health play significant role in the successful functioning of a firm. Therefore the financial health of textile mills has to be subject to empirical investigation. However the profitability of the selected few companies in Tamil Nadu during study period is satisfactory. The study is especially useful for policy makers, cotton spinning mills, investors and researcher. Cotton spinning mills can use the finding of the study for better financial management. Researchers can also use the finding as the basis for their future study.

Reference

1. Won-Sik Hwang n and Jeong-DongLee (2013)” Profitability and productivity changes in the Korean electricity industry”, Energy Policy 52, pp 531–542, No.4 July1985
2. A glimpse of south Indian Textile Industry. Retrieved from www.fibre-fashion.com
3. Dr. M. Sampath Nagi and Dr. K. Prakash published articles on “RURAL MARKETING: THEORETICAL POINT OF DISCUSSION” in International Journal of Management Technology and Engineering, Volume 9, Issue 4, April 2019, ISSN: 22497455, Pg. No. 4212 - 4219, Impact Factor: 6.4, UGC Code: 45550, <http://ijamtes.org/VOL-9-ISSUE-04-2019-3/>.
4. Dr. Ojera, Patrick , Otieno Simey and Nyakundi Finlay Nyanyuki (2013)” An Empirical Analysis of the Liquidity, Solvency and FinancialHealth of Small and Medium Sized Enterprises in Kisii Municipality,Kenya, European Journal of Business and Management, Vol.5, No.8, 2013,pp 1-15
5. Manjhi Rakesh Kumar(2013),” Analysis of Liquidity Management and Trade off Between Liquidity, Risk and Profitability at Garden Silk Mills Ltd: An Empirical Study”, Journal of Commerce and Management Thought, Volume : 4, Issue:1,Jan(2013),pp1-5.