

“A Study on Financial Performance Analysis of Spinning Mills of Coimbatore City”

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Abstract: Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the Balance Sheet and the Profit and Loss Account. The project work is an outcome of “A study on financial performance analysis of spinning mills of Coimbatore city”. The study was carried out for the period of five years (2012-16) to analyze the financial performance of the company and the 5 companies are Lakshmi Mills, Bannari Amman Spinning Mill, Sri Ramakrishna Spinning Mill, Kpr Spinning Mill and Super Spinning Mill are taken for study. The research design of the study is descriptive research design and secondary data was collected from the published websites of organization for the research. The tools used for analysis is comparative ratio analysis of the balance sheet. Suitable ratios were framed and calculated to know the financial performance of the company. The findings from the analysis were discussed in detail and suggestions for corrective actions like maintain good solvency in order to meet short term and long term obligations were given wherever applicable.

Keywords: Financial Performance, Ratio Analysis, Spinning Mills.

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I. Introduction

The Indian textile industry has a significant presence in the economy as well as in the international textile economy. Its contribution to the Indian economy is manifested in terms of its contribution to the industrial production, employment generation and foreign exchange earnings. It contributes 20 percent of industrial production, 9 percent of excise collections, and 18 percent of employment in the industrial sector, nearly 20 percent to the countries total export earning and 4 percent to the Gross Domestic Product. In human history, past and present can never ignore the importance of textile in a civilization decisively affecting its destinies, effectively changing its social scenario.

II. Objectives

- To analyze the overall financial performance of five selected companies of spinning industry in Coimbatore city.
- To study the liquidity, Leverage, profitability and turnover ratios position of five selected companies of spinning industry.
- To compare last five years different ratio with each company.
- To provide useful suggestions to improve the financial performance of the companies selected for the study.

III. Review Of Literature

Yimin Zhang and Tianmu Wang (2010) have considered the cost structure, profitability and productivity of the Chinese textile industry and estimated the impacts of RMB appreciation on this industry for 1999–2006. It was found that the industry had suffered from very low profit margins and returns on capital. Because the input prices have been increasing, particularly since 2001, generating profits had become more difficult task for the industry.

Neha Mittal (2011) has studied the determination of the capital structure choice of the selected Indian companies. The main objective was to investigate whether and to what extent the main structure theories could explain the capital structure choice of Indian firms. It has applied multiple regression models on the selected industries by taking data for the period 2001-2008. The study concluded that the main variables determining capital structure of industries in India were agency cost, assets structure, non-debt tax shield and size. The coefficients of these variables were significant at one per cent and five per cent levels.

IV. Scope of The Study

This study “Financial Performance Analysis of spinning mills of Coimbatore city” is vital because just earning profit is not enough, a business should earn sufficient profit to cover its cost of capital and create surplus to grow. So finding the surplus profit is made essential. Study aim to analyze the liquidity, profitability, solvency position of the firm and efficiency which it converts its resources into service. The study aims to find out the correlation between the services and net profit of the firm. Liquidity ratios like current Ratio, Quick Ratio etc are prepared to analyze the financial position of the firm. Profitability of the firm is found out using ratios like Gross profit ratio, Net profit ratio etc. Activity ratios for example Inventory Turnover Ratio, Debtors Turnover Ratio are used to find out the efficiency of the firm. The analysis of financial statements helped to judge the financial strength of the firm. This study further gives valuable suggestion to the union to increase its performance by making a comparison with a firm in the same industry. The study will help the union to learn whether the performance creates value to its investors there by looking for the opportunities to increase the investment.

LIMITATION OF THE STUDY:

- Financial Information collected for the study is entirely secondary in nature. In such a case, it carries all the limitation inherent with secondary data and financial information.
- The study is limited to accuracy of the statistical tools used.
- Result of the study is limited to the selected companies.
- Market capitalization details of company were not accessible for it to form basis for selecting the sample.

V. Research Methodology

Research

According to Clifford Woody research comprises defining and redefining problems, formulation hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis.

Research Design

A research design is the arrangement of condition for collection and analysis of data in a means that aims relevance to the research purpose with economy in procedure. In this study the descriptive research is followed.

Source of Data Collection

➤ Secondary Data

The secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. Thus the data was collected from company document reports and books. The data were collected from secondary the major source of secondary data were

- 1)Journal
- 2)Balance sheet

Period of Study

The period of study consist of three months from 2011-2012 to 2015-2016. This study is based on the Five years Annual report of the Lakshmi Mills, Bannari Amman spinning mills, Sri Ramakrishna spinning mills, KPR mills and Super Spinning Mills

Tools Used For Analysis

- ###### **➤ Comparative ratio analysis**

Abbreviation:

- LM- Lakshmi Mills
- BASM- Bannari Amman Spinning Mill
- SRSM- Sri Ramakrishna Spinning Mill
- KPRSM- Kpr Spinning Mill
- SSP- Super Spinning Mill

Comparative Ratio Analysis:

1. Comparative Current Ratio of 5 Companies

YEAR	LM	BAM	SRM	KPR	SSM
2011-12	5.08	1.43	0.84	1.64	0.95
2012-13	4.55	2.05	1.45	1.71	1.20
2013-14	3.97	0.98	1.36	1.09	1.09
2014-15	3.45	0.99	1.24	1.04	1.32
2015-16	3.56	1.50	0.78	1.53	1.55

Interpretation: From the above table it is clear that current ratio of Lakshmi mills is high and all other companies current ratio is too low then the standard norms 2:1.

2. COMPARATIVE QUICK RATIO OF 5 COMPANIES

YEAR	LM	BAM	SRM	KPR	SSM
2011-12	0.48	0.44	0.47	0.82	0.27
2012-13	0.46	0.34	0.55	0.61	0.19
2013-14	0.61	0.31	0.38	0.56	0.55
2014-15	0.56	0.42	0.38	0.41	0.61
2015-16	0.61	0.49	0.11	0.70	0.66

Interpretation: The standard norms for quick ratio are 1:1 where the quick ratios of all companies are below the standard norms. All companies shows fluctuating trend during the period 2011-12 to 2015-16

3 .COMPARATIVE INTEREST COVERAGE RATIO OF 5 COMPANIES

YEAR	LM	BAM	SRM	KPR	SSM
2011-12	0.92	2.10	3.09	3.54	0.93
2012-13	1.32	4.24	1.50	3.95	1.63
2013-14	-0.39	-0.04	0.00	1.70	-1.05
2014-15	0.79	2.07	0.30	2.76	1.36
2015-16	1.93	2.22	-0.08	3.48	1.20

Interpretation:

Interest coverage ratio of Lakshmi mills shows fluctuating trend ranging from 0.92 to 1.93, Bannariamman spinning mill shows fluctuating trend ranging from 2.10 to 2.22, Sri Ramakrishna Spinning Mill shows decreasing trend ranging from 3.09 to -.08, Kpr Spinning Mill shows fluctuating trend ranging from 3.54 to 3.48 and Super Spinning Mill shows fluctuating trend ranging from 0.93 to 1.20.

4. COMPARATIVE DEBT EQUITY RATIO OF 5 COMPANIES

YEAR	LM	BAM	SRM	KPR	SSM
2011-12	4.11	2.78	1.38	0.85	2.16
2012-13	3.28	2.47	1.03	1.07	1.94
2013-14	0.68	1.85	1.38	1.14	1.98
2014-15	2.26	1.46	1.46	1.13	1.74
2015-16	0.42	1.57	1.29	1.04	1.80

Interpretation: The Debt – Equity Ratio of all the companies shows fluctuating trend during the period 2011-12 to 2015-16. The standard norms for debt equity ratio are 1:1 where all companies not satisfied the norms.

5. COMPARATIVE GROSS PROFIT RATIO OF 5 COMPANIES

YEAR	LM	BMM	SRM	KPR	SSM
2011-12	11.87	19.25	23.68	20.26	12.31
2012-13	12.68	26.76	9.66	24.10	12.44
2013-14	0.79	7.81	4.32	15.50	-3.34
2014-15	10.01	20.46	5.50	24.32	11.12
2015-16	11.77	17.00	4.39	19.48	8.39

Interpretation:

Gross Profit Ratio of Lakshmi mills shows fluctuating trend ranging from 11.87 to 11.77, Bannariamman spinning mill shows fluctuating trend ranging from 19.25 to 17.00, Sri Ramakrishna Spinning Mill shows decreasing trend ranging from 23.68 to 4.39, Kpr Spinning Mill shows

6. COMPARATIVE NET PROFIT RATIO OF 5 COMPANIES

YEAR	LM	BMM	SRM	KPR	SSM
2011-12	1.05	4.24	13.64	6.10	0.08
2012-13	3.04	7.06	2.33	6.90	2.92
2013-14	-8.82	-3.56	-9.86	2.63	-11.36
2014-15	6.74	4.88	-7.14	6.75	1.72
2015-16	4.31	4.51	-20.22	6.66	0.64

Interpretation: Net Profit Ratio of Lakshmi mills shows fluctuating trend ranging from 1.05 to 4.31, Bannariamman spinning mill shows fluctuating trend ranging from 4.24 to 4.51, Sri Ramakrishna Spinning Mill shows decreasing trend ranging from 13.64 to -20.22, Kpr Spinning Mill shows fluctuating trend ranging from 6.10 to 6.66 and Super Spinning Mill shows fluctuating trend ranging from 0.08 to 0.64.

7. COMPARATIVE OPERATING PROFIT RATIO OF 5 COMPANIES

Interpretation:

Operating Profit Ratio of Lakshmi mills shows fluctuating trend ranging from 8.15 to 6.51, Bannariamman

YEAR	LM	BMM	SRM	KPR	SSM
2011-12	8.15	19.86	5.82	19.05	11.24
2012-13	10.24	24.15	8.64	21.74	10.88
2013-14	-4.93	7.32	-15.97	14.93	-7.17
2014-15	4.67	20.27	-1.48	23.90	9.59
2015-16	6.51	16.84	-10.80	17.97	7.42

spinning mill shows fluctuating trend ranging from 19.86 to 16.84, Sri Ramakrishna Spinning Mill shows negative trend ranging from 5.82 to -10.80, Kpr Spinning Mill shows fluctuating trend ranging from 19.05 to 17.97 and Super Spinning Mill shows fluctuating trend ranging from 11.24 to 7.42 fluctuating trend ranging from 20.26 to 19.48 and Super Spinning Mill shows fluctuating trend ranging from 12.31 to 8.39.

8. COMPARATIVE RETURN ON EQUITY RATIO OF 5 COMPANIES

YEAR	LM	BMM	SRM	KPR	SSM
2011-12	6.27	8.86	43.23	9.36	0.35
2012-13	19.36	18.68	5.70	11.95	13.19
2013-14	-11.57	-8.56	-18.27	5.02	-68.66
2014-15	45.14	12.71	-13.40	14.27	10.73
2015-16	7.11	13.00	-21.74	16.03	4.53

Interpretation:

Return On **Equity Ratio** of Lakshmi mills shows fluctuating trend ranging from 6.27 to 7.11, Bannariamman spinning mill shows fluctuating trend ranging from 8.86 to 13.00, Sri Ramakrishna Spinning Mill shows negative trend ranging from 43.23 to -21.74, Kpr Spinning Mill shows increasing trend ranging from 9.36 to 16.03 and Super Spinning Mill shows fluctuating trend ranging from 0.35 to 4.53.

9. COMPARATIVE DEBTOR TURNOVER RATIO OF 5 COMPANIES

YEAR	LM	BMM	SRM	KPR	SSM
2011-12	12.94	12.52	6.99	7.09	19.48
2012-13	12.66	14.87	11.04	8.34	21.87
2013-14	11.34	14.09	13.19	8.66	10.77
2014-15	7.18	12.54	8.22	9.40	10.71
2015-16	9.06	10.41	11.10	8.23	12.01

Interpretation:

Debtor Turnover Ratio of Lakshmi mills shows fluctuating trend ranging from 12.94 to 9.06, Bannariamman spinning mill shows fluctuating trend ranging from 12.52 to 10.41, Sri Ramakrishna Spinning Mill shows fluctuating trend ranging from 6.99 to 11.10, Kpr Spinning Mill shows fluctuating trend ranging from 7.09 to 8.23 and Super Spinning Mill shows fluctuating trend ranging from 19.48 to 12.01.

VI. Findings

- Current ratio of Lakshmi mills is high and all other companies current ratio is too low
- Quick ratios of all companies are below the standard norms. All companies shows fluctuating trend during the period 2011-12 to 2015-16.
- Debt – Equity Ratio of all the companies shows fluctuating trend during the period 2011-12 to 2015-16 and highest debt equity ratio is in Lakshmi mills
- Interest coverage ratio of all the companies shows fluctuating trend during the period 2011-12 to 2015-16 and highest Interest coverage ratio is in kpr mill.
- The overall gross profits of the companies are not satisfactory and highest profit on an average of 24.10 %. KPR Mills has earned high profit compared to other companies in the industry.
- The net profit of the companies has declined due to low sales and highest profit was earned by KPR Mills compared to other companies in the industry.
- The operating profit of the study shows a positive and negative sign during the period 2011-12 to 2015-16
- Return on equity shows negative trend except for KPR spinning mill
- Debtor Turnover Ratio of all the companies shows fluctuating trend during the period 2011-12 to 2015-16 and highest Debtor Turnover Ratio is 21.87 in the year 2012-13.

VII. Suggestions

- The textile mills can follow a fixed policy for debtors.
- The firm should maintain the share capital to pay dividend to the share holders.
- It's better to take proper measure to maintain the earnings of the concern.
- The firm can try to improve their profitability through debt –equity financing.
- It's better for the companies to frame some important factors to be considered before adopting their investment and financing decision.
- Liquidity position should be revised by the companies to meet its financial requirements.
- Companies should develop a system that reduce operating cost and increase the production units.

VIII. Conclusion

Textile constitutes the single largest industry in India. The Technology Up gradation Fund Scheme has made drastic changes for companies to import high capacity machines to increase production. The Indian textile industry has a significant presence in the economy as well as in the international. Government is providing many subsidies to raise the textile industry

Its contribution to the Indian economy is manifested in terms of its contribution to the industrial production, employment generation and foreign exchange earnings since if the companies maintain a well planned financial policy it can be main income generating industry.

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