

# WORKING CAPITAL MANAGEMENT ANALYSIS OF SELECTED TEXTILE INDUSTRIES - Special ref. to Coimbatore City

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**Abstract :**Working capital is part of the total capital employed by a company and is often defined as the difference between short-term liabilities and short-term assets. Practically speaking, it is the cash required to run the daily, weekly and monthly operations of a business. Therefore, it is the process of managing the short-term assets and liabilities so that a firm has sufficient liquidity to run its operations smoothly. The efficiency of working capital management can be measured through a variety of methods and ratios. This paper compares various spinning industries in Coimbatore city by using ratio analysis and for which the secondary data has been used.

**Index Terms-**Ratio analysis, Working capital, Working Capital Turnover Ratio

## I. INTRODUCTION

The **textile industry of India** gives great contribution to the GDP. This **industry** is providing second largest employment after agriculture **sector**. And thus, development of this **industry** directly affect to the **Indian Economy**. India's textiles sector is one of the oldest industries in Indian economy dating back several centuries. India's overall textile exports during FY 2017-18 stood at US\$ 39.2 billion. The central government is planning to finalise and launch the new textile policy in the next three months<sup>1</sup>. The policy aims to achieve US\$ 300 billion worth of textile exports by 2024-25 and create an additional 35 million jobs.

Coimbatore is one of the most popular cities of Tamil Nadu which indulges in heavy textile activity. The units concentrating on textile activities are all specialized in spinning, weaving power looms or knitwear. The weavers in the city of Coimbatore are known for their fabulous and fantastic dyeing and weaving capabilities. It was during the British reign that textile industry saw a good amount of growth in Coimbatore. Spinning mills became a bit hit during their reign. We can see a heavy sign of ancient weaving style being imprinted on the fabrics in Coimbatore even today.

## II. OBJECTIVES OF THE STUDY

- To study the origin and development of textile industries in Coimbatore
- To Review the profile of select textiles industries in Coimbatore
- To analyse the Working Capital Management of Select textile industries in Coimbatore
- To compare the Working Capital Management of selected industries
- To consolidate findings and offer suggestions for improvement of Working Capital Management of Select textiles industries.

## III. LITERATURE REVIEW

Some important research works undertaken in recent years which are very closely connected with the present study are reviewed.

### R. Swaminathan, N. Rajesh and K. Mohamed Jasim (2013)<sup>1</sup>

The authors compare various cement companies in India by using Ratio analysis, regression analysis and ANOVA. From their study they reveals that the working capital of select cement companies is satisfactory, but there is a need for improvement in certain factors. The major portion of the current assets is in the form of Inventory. The investment in current assets should consider liquidity profitability and solvency. It is very important to trade-off between liquidity and profitability by properly arranging the needed funds at right time, period and source.

### RekhaSwarnkar, Yogesh Soni and Deepti Gulati (2013)<sup>2</sup>

This paper makes an attempt to examine the efficiency of working capital management of textile companies for the period of 5 years. (2008 – 2012). It investigate liquidity and credibility position of the companies as sufficient liquidity is necessary and must be achieved and maintained to provide the fund to pay off obligations. The study concludes that the

<sup>1</sup> " Working Capital Management of Selected Cement Companies in India"- INTERNATIONAL JOURNAL OF MANAGEMENT AND DEVELOPMENT STUDIES - VOLUME No. 2 (2013), ISSUE No. 4 (April)

<sup>2</sup> "WORKING CAPITAL MANAGEMENT IN TEXTILE INDUSTRIES" - INDIAN JOURNAL OF MANAGEMENT SCIENCE (IJMS) - Vol.- III, Issue – 2, April 2013

management of working capital is very crucial for company. Sufficient liquidity is necessary and must be achieved and maintained to provide the fund to pay off obligations as they mature.

#### **Dr. Venkateswararao. (2018)<sup>3</sup>**

The researcher has made an attempt to examine working capital management in Cuddapah Spinning Mills Ltd., AP and the analysis drives to the conclusion that the company needs to concentrate much on working capital management so that profitability of the company will be further improved.

#### **IV. RESEARCH METHODOLOGY**

##### **Date Collection:**

The present study is of analytical nature and makes use of secondary data. Five textile industries in Coimbatore have been selected on the basis of highly engaged net worth in the year 2011 from the listed company. The data used for this study is from 2011-12 to 2015–16 were collected from secondary data source. i.e. Capitaline Database of PSGLRC, Coimbatore

##### **Sample size:**

Collected five years data of five textile industries are used to the study. Super Spinning Mills Ltd., Bannari Amman Spinning Mills Ltd., Ambika cotton Mills Ltd., Precot Meridian Ltd., are the industries taken for the study.

##### **Tool Used For Analysis:**

The tools used for this study were Working capital Turnover Ratio, Current Ratio and Liquid Ratio

#### **V. PROFILE OF THE SELECTED INDUSTRIES**

##### **Super Spinning Mills Ltd.,**

Super Spinning Mills Limited was established in 1962 with an initial capacity of 12,000 spindles. The company has expanded both regionally and internationally over the years. Manufacturing Units at four places ensures that each product that reaches the market is a wondrous example of unmatched quality. Super Spinning Mills has dedicated itself to providing customers with the best products and garments. Their awards and recognitions are, Best Management Award, The Award For Excellence, Best Management Award And Quality Circle Award.

##### **Bannari Amman Spinning Mills Ltd.**

Bannari Amman Spinning Mills Limited, commenced spinning operations in the year 1995 with an installed capacity of 30,000 spindles. The company had gone for major expansion in spinning during 2007 at Dindigul with an installed capacity of 1,14,000 spindles. Garments Division expanded in the year 2015 with capacity of 4.5 Million pieces per year under the name of Accel Apparels. The Company's various production units are certified by various international organizations for its quality management practices and environment safety Standards.

##### **Ambika Cotton Mills Ltd.**

Ambika Cotton Mills Limited (ACML) based out of Coimbatore in Southern India, is engaged in the manufacture of premium quality Compact and Elitwist cotton yarn for hosiery and weaving. They are an established player in the international and domestic yarn market with exports constituting roughly sixty percent of its revenues. The company was incorporated in 1988 and its 4 manufacturing units are situated in Dindigul, Tamil Nadu with a total spindle capacity of 1,08,288 of Compacting System. They also a part of the Better cotton initiative Better Cotton Initiative (**BCI**) stewarding the global standards for Better Cotton, and bringing together cotton's complex supply chain, from the farmers to the retailer, for Supima, Australian, and Indian cotton of all counts.

##### **Precot Meridian Ltd.,**

Precot Meridian Ltd (formerly Precot Mills) has been a prominent player in the textile industry since 1962. Precot offers an array of products in multiple segments and has earned national and international repute for the quality of its products. The company has been serving the Textile Industry for over five decades and has gained extensive expertise and knowledge across various product lines. Products manufactured fall broadly under two categories – Yarns & Threads and Health & Hygiene care. In 2006, Meridian Industries merged with Precot Mills and the name was changed to Precot Meridian Ltd. Precot Meridian is looking towards green power generation and has invested in 17 Windmills. These windmills cater 50% of the power requirements of units located in Tamil Nadu.

#### **V. ANALYSIS AND INTERPRETATION**

##### **WORKING CAPITAL TURNOVER RATIO**

The working capital turnover ratio is also referred to as net sales to working capital. It measures how well a company is utilizing its working capital to support a given level of sales. The working capital turnover ratio is calculated as follows:

$$\text{Net Annual Sales} / \text{Net Working Capital}$$

Whereas Net working capital is calculated as follows:

$$\text{Current Assets} - \text{Current Liabilities}$$

<sup>3</sup> "Working Capital Management in Cuddapah Spinning Mills Ltd. - A Case Study in Andhra Pradesh" - International Journal of Research in Engineering, IT and Social Sciences, Volume 08 Issue 3, March 2018

**Table 1**  
**Net Working capital**

INDUSTRY	Super Spg. Mills Ltd			Bannari Amman Spg. Mills Ltd			Ambika cotton Mills Ltd			Precot Meridian Ltd		
	YEAR	CA	CL	NET WC	CA	CL	NET WC	CA	CL	NET WC	CA	CL
2011 - 12	103.36	49.03	54.33	166.39	44.81	121.58	110.19	42.33	67.86	181.49	52.3	129.19
2012 - 13	130.31	61.52	68.79	180.7	42.96	137.74	120.61	63.62	56.99	233.4	56.35	177.05
2013 - 14	151.35	64.64	86.71	296.73	51.53	245.2	156.01	53.4	102.61	276.5	67.17	209.33
2014 - 15	110.65	67.29	43.36	269.58	70.29	199.29	168.8	45.19	123.61	188.96	53.56	135.4
2015 - 16	99.67	58.89	40.78	320.9	100.27	220.63	164.7	32.08	132.62	191.3	64	127.3

Source: Computed

**Table 2**  
**Working capital Turnover Ratio**

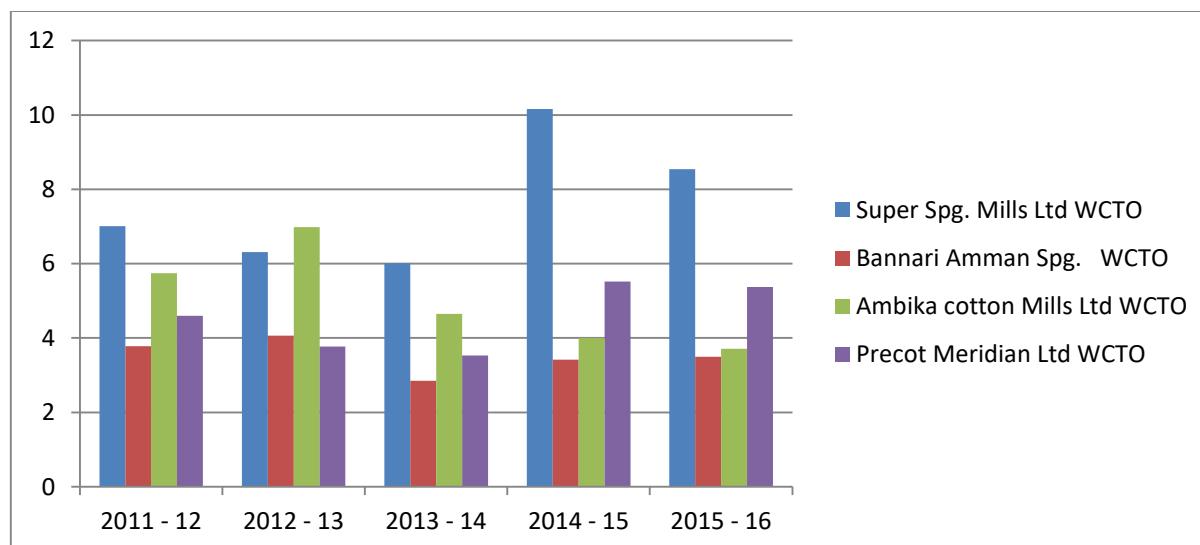
Source: Computed

From the above table it is observed that in the year 2014 – 15 Super spg. Mills shows a highest working capital turnover ratio of 10. This indicates that they are extremely using short-term assets and liabilities to support sales. Whereas in the

INDUSTRY	Super Spg. Mills Ltd			Bannari Amman Spg.			Ambika cotton Mills Ltd			Precot Meridian Ltd		
YEAR	Sales	WC	WCTO	Sales	WC	WCTO	Sales	WC	WCTO	Sales	WC	WCTO
2011 - 12	380.78	54.33	7	459.73	121.58	4	389.44	67.86	6	594.04	129.19	5
2012 - 13	434.15	68.79	6	559.72	137.74	4	397.79	56.99	7	667.17	177.05	4
2013 - 14	521.2	86.71	6	699.65	245.2	3	476.86	102.61	5	738.19	209.33	4
2014 - 15	440.5	43.36	10	680.42	199.29	3	495.28	123.61	4	746.95	135.4	6
2015 - 16	348.29	40.78	9	771	220.63	3	492.31	132.62	4	683.69	127.3	5

same year Bannari Amman Spg. Mills ltd., shows a lowest working capital turnover ratio of 3, it indicates they investing in too many accounts receivable and inventory to support its sales.

**Chart 1**  
**Working capital Turnover Ratio**



**CURRENT RATIO:**

It is a financial ratio which shows the relationship between current assets with current liabilities. It is mainly used to give an idea of a company's ability to pay back its liabilities with its assets. It is calculated by using the following formula:

$$\text{Current Assets} / \text{Current Liabilities}$$

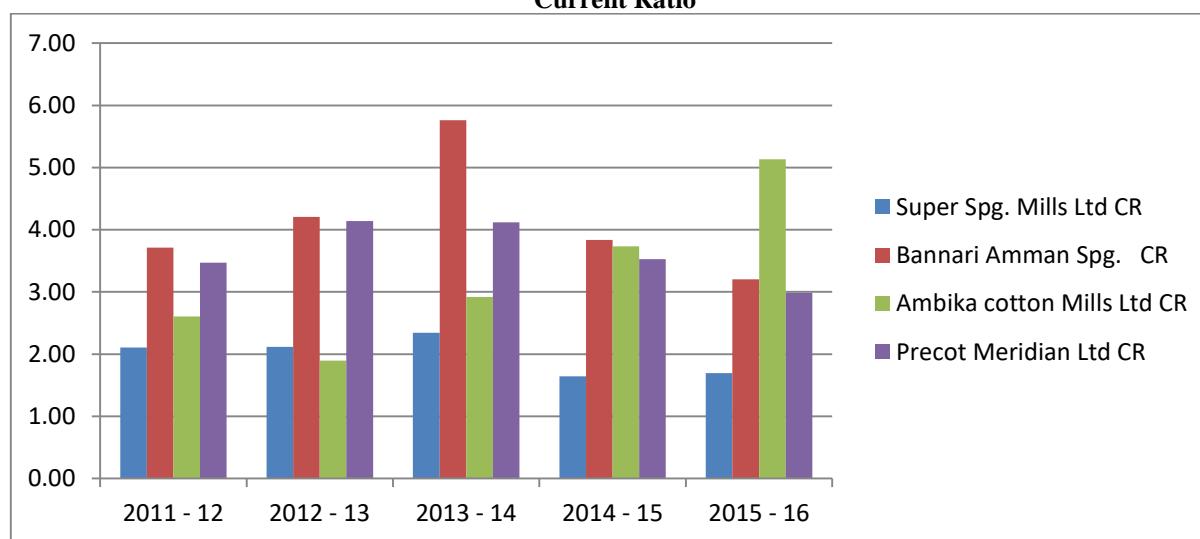
**Table 3**  
**Current Ratio**

INDUSTRY	Super Spg. Mills Ltd			Bannari Amman Spg.			Ambika cotton Mills Ltd			Precot Meridian Ltd		
YEAR	CA	CL	CR	CA	CL	CR	CA	CL	CR	CA	CL	CR
2011 - 12	103.36	49.03	<b>2.11</b>	166.39	44.81	<b>3.71</b>	110.19	42.33	<b>2.60</b>	181.49	52.3	<b>3.47</b>
2012 - 13	130.31	61.52	<b>2.12</b>	180.7	42.96	<b>4.21</b>	120.61	63.62	<b>1.90</b>	233.4	56.35	<b>4.14</b>
2013 - 14	151.35	64.64	<b>2.34</b>	296.73	51.53	<b>5.76</b>	156.01	53.4	<b>2.92</b>	276.5	67.17	<b>4.12</b>
2014 - 15	110.65	67.29	<b>1.64</b>	269.58	70.29	<b>3.84</b>	168.8	45.19	<b>3.74</b>	188.96	53.56	<b>3.53</b>
2015 - 16	99.67	58.89	<b>1.69</b>	320.9	100.27	<b>3.20</b>	164.7	32.08	<b>5.13</b>	191.3	64	<b>2.99</b>

**Source: Computed**

From the above table it is observed that Bannari Amman Spg. Mills shows a highest current ratio of 5.76 during the year 2013 – 14 and followed by Ambika Cotton Mills shows the next highest current ratio of 5.13 in the year 2015 – 16. Super Spg. Mills shows the lowest current ratio in all the year while compare to other industries. In which 1.64 is their lowest current ratio in the year 2014 – 15.

**Chart 2**  
**Current Ratio**



## QUICK RATIO

It is the basic measure of a firm's liquidity, the quick ratio measures all of the firm's assets that could be used almost immediately to pay off debts relative to the firm's short term liabilities. The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. The formula used to calculate Quick Ratio is:

$$\text{Quick Assets} / \text{Current Liabilities}$$

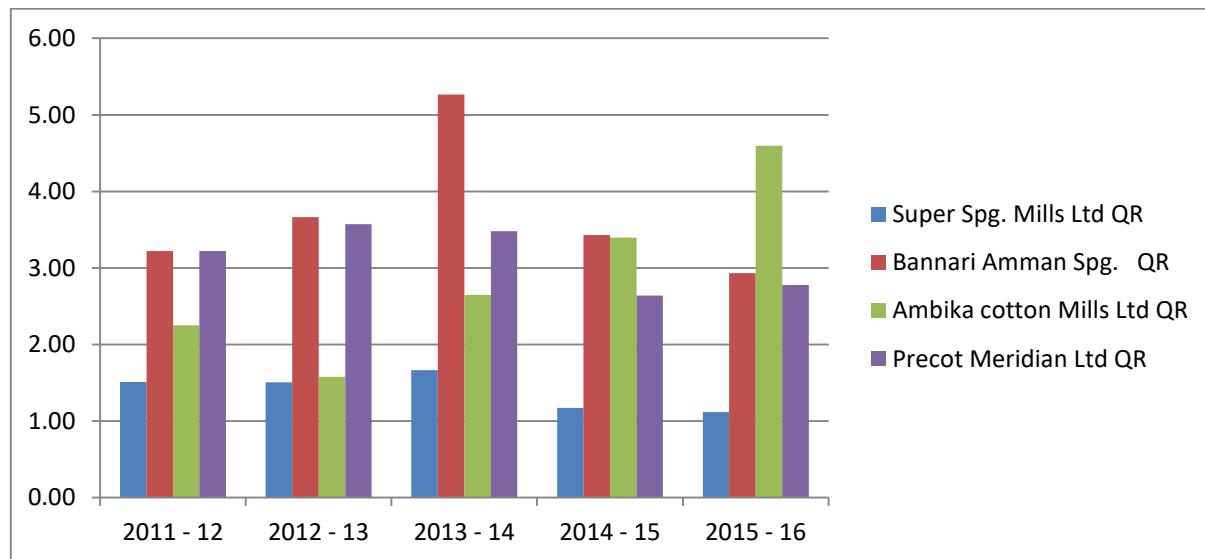
**Table 4  
Quick Ratio**

INDUSTRY	Super Spg. Mills Ltd			Bannari Amman Spg.			Ambika cotton Mills Ltd			Precot Meridian Ltd		
YEAR	QA	CL	QR	QA	CL	QR	QA	CL	QR	QA	CL	QR
2011 - 12	74.05	49.03	<b>1.51</b>	144.31	44.81	<b>3.22</b>	95.28	42.33	<b>2.25</b>	168.52	52.3	<b>3.22</b>
2012 - 13	92.63	61.52	<b>1.51</b>	157.39	42.96	<b>3.66</b>	100.24	63.62	<b>1.58</b>	201.28	56.35	<b>3.57</b>
2013 - 14	107.6	64.64	<b>1.66</b>	271.38	51.53	<b>5.27</b>	141.35	53.4	<b>2.65</b>	233.63	67.17	<b>3.48</b>
2014 - 15	78.8	67.29	<b>1.17</b>	241.02	70.29	<b>3.43</b>	153.42	45.19	<b>3.39</b>	141.33	53.56	<b>2.64</b>
2015 - 16	65.75	58.89	<b>1.12</b>	294.01	100.27	<b>2.93</b>	147.46	32.08	<b>4.60</b>	177.85	64	<b>2.78</b>

### Source: Computed

From the above table it was observed that, Quick ratio of Bannari Amman Spg. Mills was showed a highest ratio of 5.27 during the year 2013 – 14. The next highest ratio was shown by Ambika Cotton Mills during the year 2016 – 16 as 4.60. All the years Super Spg. Mills is shown the lowest quick ratio when compare to all other industries. In the year 2015 – 16 they showed a lowest ratio of 1.12.

**Chart 3  
Quick Ratio**



## VI. FINDINGS

- It was observed that Bannari Amman Spg. Mills shows the highest working capital in all the years except the year 2012 – 13. Proper management of working capital is essential to a company's fundamental financial health and operational success as a business. So here Bannari Amman Spg. Mills maintains that working capital mostly in all the years. But at the same time, Super Spg. Mills shows the lowest working capital when compare to all other industries in all the years.
- In working capital turnover ratio it was observed that in the year 2014 – 15 Super spg. Mills shows a highest working capital turnover ratio of 10. This indicates that they are extremely using short-term assets and liabilities to support sales. Whereas in the same year Bannari Amman Spg. Mills Ltd., shows a lowest working capital turnover ratio of 3, it indicates they investing in too many accounts receivable and inventory to support its sales
- It was observed that Bannari Amman Spg. Mills shows a highest current ratio of 5.76 during the year 2013 – 14 and followed by Ambika Cotton Mills shows the next highest current ratio of 5.13 in the year 2015 – 16. Super Spg. Mills shows the lowest current ratio in all the year while compare to other industries. In which 1.64 is their lowest current ratio in the year 2014 – 15.
- In quick ratio, it was observed that, again Bannari Amman Spg. Mills was showed a highest ratio of 5.27 during the year 2013 – 14. The next highest ratio was shown by Ambika Cotton Mills during the year 2016 – 16 as 4.60. All the years Super Spg. Mills is shown the lowest quick ratio when compare to all other industries. In the year 2015 – 16 they showed a lowest ratio of 1.12.
- During the study it was observed that, Bannari Amman Spg. Mills shows extremely a good and efficient way of using their current assets and also maintains a good liquidity position when compare to all other selected industries in the study.
- Ambika Cotton Mills Ltd., and Precot Meridian Ltd., are also performing well and maintaining a good liquidity position.
- Super spinning mills ltd., has to concentrate more on maintaining their liquidity position otherwise it may lead to an excessive amount of bad debts and obsolete inventory.

## VII.CONCLUSION

A business uses working capital in its daily operations; Working capital serves as a metric for how efficiently a company is operating and how financially stable it is in the short-term. The working capital ratio, which divides current assets by current liabilities, indicates whether a company has adequate cash flow to cover short-term debts and expenses. Working capital is a prevalent metric for the efficiency, liquidity and overall health of a company. It is a reflection of the results of various company activities, including revenue collection, debt management, inventory management and payments to suppliers. This is because it includes inventory, accounts payable and receivable, cash, and portions of debt due within the period of a year and other short-term accounts. Managing working capital means managing inventories, cash, accounts payable and accounts receivable. An efficient working capital management system often uses key performance ratios, such as the working capital ratio, the inventory turnover ratio and the collection ratio, to help identify areas that require focus in order to maintain liquidity and profitability.

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