

ANALYSIS OF RELATIONSHIP AMONG SELECTED TEXTILE SECTORS IN INDIA

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ABSTRACT

Indian textile industry has witnessed a consistent performance drive during the past few years and has played a major role in the economic growth and development of India. The financial performance of the industry can be studied with regard to various factors namely The overall financial performance is an important factor which indicates the growth of an industry that comprises growth rate, trend value and efficiency. Hence this study made an attempt to examine relationship among size, growth, liquidity, dividend, Profitability and leverage of sector wise companies.

INTRODUCTION

. The textile industry is a group of related industries which uses a variety of natural (cotton, wool, etc.) and/or synthetic fibres to produce fabric. It is a significant contributor to many national economies, encompassing both small and large-scale operations worldwide. 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.

In view of its economic significance and employment potential, the textile industry is selected for this research.

PURPOSE OF THE STUDY

The study investigated to examine relationship among the sector wise analysis of listed companies in India

OBJECTIVES

- 1.To examine the relationship among size, growth, liquidity, dividend, Profitability and leverage of sector wise analysis of selected textile companies.
- 2.To offer suggestions for improving the selected companies.

SCOPE OF THE STUDY

The scope of the present study confines to the sector wise analysis financial performance of Textile companies in India listed in the Bombay Stock exchange.

LIMITATIONS OF THE STUDY

- 1) The study is based on secondary data.
- 2) companies which are listed on the Bombay Stock Exchange (BSE).

REVIEW OF LITERATURE

Jaisawal, et al. (2013)¹ studied the relationship of the capital structure and financial performance of companies in the cement industry in India. The study indicated that there is a weak positive correlation between capital structure and two determinants of performance GPR and ROE. A linear regression model had been developed to estimate the effect of variation in the capital structure to the variability in the firms,, financial performance. The result showed that there was negative and low degree of relationship between firms,, capital structure and its financial performance.

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Birundu, and Mwangi, (2015)² studied the effect of capital structure on the financial performance of SMEs in Thika sub-county, Kenya. The study was conducted on 40 SMEs which were in operation for the five years 2009 to 2013, using multiple linear regression. The study was found that there was no significant effect of capital structure, asset turnover and asset tangibility on the financial performance of SMEs in Thika sub country, Kenya, especially the non-existence of a significant relationship between ROA and capital structure would tend to support the pecking order theory of capital structure which argues that there did not exist an optimum leverage for firms.

Study Period

Study period for the study was held in accordance with the data availability. Secondary data published by CMIE was available for the sample companies under the selected sectors of textile industry for the period from 2003-04 to 2013-14 only.

SAMPLE SIZE AND SAMPLING METHOD

Textile industry in India is broadly categorized in to 27 sectors. The study covers only 5 major sectors. Keeping in view of the scope of the study, it is decided to include all the textile companies under Indian textile industry working during the years 2003 -2004 to 2013- 2014.

Table: 1 Sector-wise Distribution of Sample companies

S.No	Sector of the Textile Industry	No of companies
1	Readymade apparel	14
2	Spinning Cotton Blended	4
3	Cotton yarn 100%	8
4	Cotton yarn open ended spinning	6
5	Hosiery knitwear	6
	Total	38

Size, Growth, Liquidity, Dividend, Profitability and Leverage are the major determinants of financial performance of companies. Pearson's correlation coefficient measures the extent and direction of relationship between two variables. The interrelationship among these determinants of financial performance is analyzed in this part through Pearson's correlation coefficients between the aforesaid variables pertaining to sample companies.

Table: 2 Sector-wise comparison on Size, Growth, Liquidity, Dividend, Profitability and Leverage

S No	Sector of Textile Industry	Size	Growth	Liquidity	Profitability	Leverage	Dividend
1	Readymade apparel	134.43	17.31	5.30	15.01	1.50	10.34
2	Spinning Cotton Blended	195.97	31.75	1.14	10.77	2.16	9.73
3	Cotton yarn 100%	276.98	-61.07	1.16	7.31	3.54	11.69
4	Cotton yarn open ended spinning	241.73	407.93	2.56	16.84	1.36	18.54
5	Hosiery knitwear	411.49	-172.23	4.98	3.08	1.02	26.30

Source: Computed by the Researcher from CMIE Database

The result of correlation analysis relating to variables is presented here sector-wise.

READYMADE APPAREL

Table: 3 Correlation Analysis for Readymade Apparel Sector

	Size	Growth	Liquidity	Profit	Leverage	Dividend
Size	1					
Growth	-.377	1				
Liquidity	-.278	-.053	1			
Profitability	.260	.180	-.278	1		
Leverage	-.019	.423	-.320	.109	1	
Dividend	.220	.013	-.210	.804**	-.022	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Computed by the Researcher from the CMIE Database

Analysis revealed that that in Readymade Apparel sector. Profitability is positively and significantly correlated with Dividend payout. Size of the firm is negatively correlated with Growth, liquidity and Leverage. Growth is negatively correlated with Liquidity and positively correlated with profit, Leverage and Dividend. Liquidity of the all firms under readymade apparel is negatively correlated with profitability, Leverage and Dividend. Leverage is negatively correlated with dividend.

SPINNING COTTON BLENDED

Table:4 Correlation Analysis for Spinning Cotton Blended Sector

	Size	Growth	Liquidity	Profit	Leverage	Dividend
Size	1					
Growth	.123	1				
Liquidity	-.205	.686	1			
Profitability	.641	.821	.520	1		
Leverage	.713	.053	-.638	.309	1	
Dividend	.877	.007	.060	.568	.300	1

Source: Computed by the Researcher from the CMIE Database

When correlation computed on the financial performance of the firm on the Spinning Cotton Blended it was observed that there was no significant correlation observed among the variables, Positive correlation is observed between all variables except ‘Size with Liquidity’ and Liquidity with Leverage. The findings, thus, agree with the study of Montgomery (1979), Hamilton and Shergil (1993) and Maninder (1997).

COTTON YARN 100% SECTOR

Table: 5 Correlation Analysis for Cotton yarn 100% Sector

	Size	Growth	Liquidity	Profit	Leverage	Dividend
Size	1					
Growth	-.410	1				
Liquidity	-.622	.488	1			
Profitability	-.065	.093	-.466	1		
Leverage	.542	-.725*	-.840**	.457	1	
Dividend	.245	.229	-.062	-.124	-.139	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Computed by the Researcher from the CMIE Database

Size has a negative but statistically insignificant correlation with growth, liquidity and profitability while it has a positive but insignificant correlation with leverage and dividend. Leverage has shown a negative but very significant correlation with growth and liquidity.

COTTON YARNS OPEN ENDED SPINNING

Table: 6 Correlation Analysis for Cotton yarns open ended spinning Sector

	Size	Growth	Liquidity	Profit	Leverage	Dividend
Size	1					
Growth	-.169	1				
Liquidity	-.201	.975**	1			
Profitability	-.304	.966**	.949**	1		

Leverage	.068	-.447	-.416	-.621	1	
Dividend	.991**	-.177	-.184	-.314	.091	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Computed by the Researcher from the CMIE Database

Correlation analysis revealed that size has got appositive and significant correlation with dividend. Growth has got a positive and significant correlation with liquidity and profitability. It is revealed from the analysis that the Cotton yarns open ended spinning are growing with the increase of size. The relationship strongly suggests that the cotton yarns open spinning companies are growing may be because of making more profit.The correlated values between liquidity and profitability are statistically significant which implies that the keeping more amount of funds as liquidity is one of the reasons for making profit for all size of companies. On the other hand, correlation coefficient between Dividend and size is 0.991 and statistically significant implying that there is positive relation between size and dividend.

HOSIERY KNITWEAR

Table: 7 Correlation Analysis for Hosiery knitwear Sector

	Size	Growth	Liquidity	Profit	Leverage	Dividend
Size	1					
Growth	.246	1				
Liquidity	-.134	.096	1			
Profitability	.236	.055	-.595	1		
Leverage	.687	.302	-.081	-.118	1	
Dividend	-.207	-.966**	-.301	.046	-.350	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Computed by the Researcher from the CMIE Database

Analysis shows that the growth of Hosiery knitwear companies is not related with size of companies, though it is positively correlated yet it is not statistically significant. A firm's growth is irrespective of size of companies and is in tune with the study of Ferguson who did not find any relationship between size and growth of the firm. It has also seen from the table that there is negative relationship between liquidity and size of the firm. Moreover, Dividend and Liquidity is negatively associated with the size of the firm and no statistical significance is observed in size of the firm with four variables. Growth of the firm is negatively correlated with Dividend and other variables are positively but insignificantly correlated. It implies that Dividend distributed to shareholders impact the growth of the firm. Liquidity is negatively associated with all variables except growth and not significant. Though mixed results is observed on the correlation between variables, significant negative relations is observed between Dividend and Growth of the firm.

FINDINGS

- On comparison, the readymade apparel sector has performed in terms of profitability and dividend distribution and unable to sustain growth, liquidity and leverage
- Analysis revealed that that in Readymade Apparel sector. Profitability is positively and significantly correlated with Dividend payout. Size of the firm is negatively correlated with Growth, liquidity and Leverage

CONCLUSION

The Indian textile industry is at present is one of the largest and most important sector in the economy in terms of output foreign exchange earnings and employment in India. The textile industry in India has gone through significant charges in anticipation of increased international competition. The study would be helpful to the companies in framing competitive financial, investment and dividend policies. The industry has matured with the help of all indicators of performance such as size, capacity utilization, production, consumption and exports after globalization.