

CHAPTER I

TEXTILE INDUSTRIES

- a) Introduction**
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1.1 INTRODUCTION :

Textile Industry is one of the largest centralised business unit in Industrial Production. Out of the total capital invested in Industrial production as a whole in India six percent of the capital is invested in Textile Industries. About one million people find direct employment in this industry and millions more find their source of livelihood indirectly from this industry.

The job consists of cotton growers, farm workers, workers working in paint industries and chemical industries and workers working in sizing and processing units, workers working in machine building and equipments required for textile industry also get job. In this way this industry has wide scope for employment.

The Textile Industry is divided into two sectors organised and unorganised. The organised sector consists of spinning mills and handloom sector. The powerloom sector is considered as unorganised sector. Textile Industry is scattered in various parts of India. Proper control over the established units is essential. Considering this need Textile Committee has been established under the Textile Committee Act, 1963 of the Indian Parliament. This Committee is consciously aware of quality control performance.

Food, clothing and shelter are basic needs of living. Textile Industry fulfils the need of food and shelter by creating employment opportunities. Textile Industry is also responsible for the development of allied industries like machinery, spares and chemicals, spares parts industries. ✓

✓ Textile industry is one of the sources of foreign exchange earning industrial units. Textile Industry requires skilled, semi-skilled and unskilled workers. Unskilled workers are available in abundance. There is lack of skilled workers having technical knowledge. Considering competitive markets highly professional management is of essence. In order to make available technically skilled and professionally trained workers some polytechnics and degree colleges in textile are established and run by private management with the financial assistance of the said mill¹ in the town of Ichalkaranji. ✓

Spinning yarn means conversion of raw cotton into yarn. Yarn is of two types weft and warp. Weft means parallel and warp means horizontal. Yarn is designated with a count, which is a measure of its coarseness or fineness. The higher the count finer the yarn and vice versa.

✓ The first Textile Industry was established in 1818 in Calcutta. Then Textile business spread all over India. 'Nay'² was the first co-operative spinning mill in the Maharashtra. Ichalkaranji is popularly known as the Manchester of Maharashtra.

Ichalkaranji is surrounded by textile mills. The entrepreneurs at Ichalkaranji have active and positive interest in developing this industry. First and foremost entrepreneur is Late Babasaheb Ghorpade of former Princely State of Ichalkaranji. Textile industry mainly consists of the spinning yarn, weaving on handloom and powerloom units, sizing, warping and processing units. So the process of textile industry is the process of above discussed units.

Presently the picture of spinning mill shows that spinning units have wider scope for research and development, if they are to survive as healthy, profit making, manufacturing unit in the competitive world.

At present these units suffer from financial crisis. Such a situation is dangerous to the industry as a whole. In order to know the reasons for such financial crisis of the spinning units and suggest remedial measures the case study of the said spinning unit is undertaken.

Spinning Units :

Spinning mills are functioning in a co-operative sector, private sector and public sector. Some of them are larger units, some of them are medium sized spinning units and some of them are smaller units.

Spinning units face a problem of getting adequate quality cotton at reasonable prices. Prices of cotton do often fluctuate it is of immediate concern to the mill. At present there has not been much material pick up in sale of yarn. Major spinning units functioning at Ichalkaranji are 'The Deccan Co-operative Spinning Mills Ltd.,' 'Kolhapur Zillah Shetkari Vinkari Sahakari Soot Girni Ltd.,' 'Ichalkaranji Co-operative Spinning Mills Ltd.' etc.

1.2 OBJECTIVES OF THE STUDY :

Financial Analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account.

The following are the objectives of the study :

- 1) Is the Deccan Mill in a position to meet its current obligations ?
- 2) What sources of long term finance are employed by this spinning mill and what is the relationship between them ?
- 3) Is there any danger to solvency of the spinning mill due to the employment of excessive debt ?
- 4) How efficiently does the spinning mill use its assets ?
- 5) Are earnings of the spinning mill adequate ?

6) Do investors consider the spinning mill profitable and safe for the purpose of investing their money in the shares of spinning mill ?

The purpose of the study is to discuss ratio analysis as technique of analysing the financial information contained in the five years balance sheet and profit and loss account for more meaningful understanding of the financial position and performance of spinning mill.

1.3 METHODOLOGY OF THE STUDY :

A case study method is adopted for this study. The secondary data has been used for this study. The information for the study has been collected from the annual reports, manufacturing, trading, profit and loss account and balance sheet, staff registers etc. Other information is collected from the relative executives by personal interviews and desk discussion.

The scope of the study covers only financial analysis of this mill by ratio analysis technique. In this technique all the ratios are calculated to achieve the objective of the study. For this purpose trend analysis is also made. Other technique like interfirm comparison, change in working capital, fund flow statement etc. are not considered in the study. The period covered in the study is only five years i.e. from 1980-81

to 1984-85. With the help of interpretation of financial statement the conclusions are drawn and suggestions are made.

1.4 LIMITATIONS OF THE STUDY :

For the study ratio analysis technique is used. Though this technique is simple to calculate and easy to understand due care must be taken. Ratios never provide exact answer to financial problems. There is always the question of judgement as to what significance should be given to figures. Analyst finds following shortcomings while analysing the data of the Deccan Co-operative Spinning Mills Ltd. with the help of ratio analysis.

- 1) Interfirm comparison - Due to lack of industry average it is difficult to present mills performance. Intrafirm comparison or a single ratio would not be able to cover anything.
- 2) Ratios are calculated from historical data. Hence its analysis also possesses limitations and weaknesses of historical accounting.
- 3) Lack of proper standard - It is difficult to determine adequate standard. It is impossible to decide exact and absolute standard.
- 4) Arithmetical window dressing is possible and may be successful in concealing the real position.

It is impossible to make a future estimates on the basis of past it always does not come true.

5) Period

The period under study is 1980-81 to 1984-85 because this period was chosen as the present problems of the organisation would be revealed by the data relating to then years.

General price level changes are not considered. A change in price level can seriously effect the validity of comparisons of ratios computed in different time periods.

Notes and References

- 1) The full name of the Mill is "The Deccan Co-operative spinning Mills Ltd., Ichalkaranji.
- 2) Nay - All India Federation of Co-operative Spinning Mills Ltd., Bombay, Annual Report, 1976-77, p.123.