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PERFORMANCE APPRAISAL OF THE GADAG CO-OPERATIVE COTTON TEXTILE MILL LTD, HULKOTI - A CASE STUDY

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Abstract

Cotton is an important Commercial Crop grown in India on a large scale. The Cotton Production in India has crossed 21.80 million bales at the end of March 2007. India stood third, next to China and USA, in the production of cotton among the top five-cotton producing countries of the world. The Cotton Production in Karnataka State stood at 440 thousand bales during 2006-07. But the Cotton Production in Karnataka State is very low compared to the cotton growing states like Gujarat, Maharastra, Punjab and Andhra Pradesh. The Cotton Textile Industries in India in general and Karnataka State in particular, have been contributing a lot to the growth and development of the economy by providing market for the cotton growers and employment opportunities to many unemployed youths. The Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti, has been in existence for the last 35 years and it is located in a village called Hulkoti of Gadag District of Karnataka State. The Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti, performed very well in the first few years. However, the financial statements of the last few years of the firm show negative results like Gross Loss and Net Loss and imbalance in the assets and liabilities structure. The present Study is purely based on secondary data, i.e Annual Reports of The Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti. The data were extracted from financial statements like manufacturing accounts, trading accounts, profit and loss accounts and balance sheets of the firm from 2002-03 to 2007-08. The collected data were analyzed by using the Ratio Analysis. Further, statistical tools like Percentage, Trends and Tabulation, Mean, Standard Deviation, Coefficient of Variation and Growth Rate were also used for the purpose of the Study. The Study suggested both Internal and External Reconstruction of the firm.

Introduction

Cotton is an important Commercial Crop that has been growing in India on a large scale. The Cotton Production in India has crossed 21.80 million bales at the end of March 2007. India stood third, after China and USA, in the production of cotton among the top five-cotton producing countries of the world. The Fabric Production in India has increased from Rs.1,04,932 crores in 2002-03 to Rs.2,13,556 crores in 2006-07 and the Readymade Garments Production has increased from Rs.56,884crores in 2002-03 to Rs.1,12,927crores in 2006-07. Similarly, the Yarn Production has increased from Rs.43,761 crores in 2002-03 to Rs.59,880 crores in 2006-07 and Fabric Production has increased from Rs.17,203 crores in 2002-03 to Rs.32,188 crores in 2006-07. Further, the Textile Export has increased from Rs.57,383 crores in 2002-03 to Rs88,031 crores in 2006-07”[2].

The Cotton Production in Karnataka State stood at 440 thousand bales during 2006-07. But the Cotton Production in Karnataka State is very low compared to the cotton growing

States like Gujarat, Maharastra, Punjab and Andhra Pradesh. The Cotton Textile Industries in India in general and Karnataka State in particular have been contributing a lot to the growth and development of the economy by providing market for the cotton growers and employment opportunities to many unemployed youths. The Indian Cotton Textile Industry contributes 20 per cent of Industrial Production, 9 per cent of Excise Collection, 18 per cent of Employment in the industrial sector, 20 per cent of country's Total Export and 4 per cent of the Gross Domestic Products (GDP).

Ratio Analysis was used to examine Liquidity, Profitability and Solvency of the Firm. The ability of the firm to meet its obligations on time depends on its liquidity and solvency position and its ability to meet all expenditures depends on its earning capacity. Both Liquidity and Profitability of the firm enhance the Credit Worthiness of the Firm. The high degree of liquidity affects adversely profitability and high degree of profitability affects adversely the liquidity of the firm. Therefore, it is necessary to strike a balance between Liquidity and Profitability of the Firm. The financial statements of last few years of the firm show negative results like Gross Loss and Net Loss and imbalance in the assets and liabilities structure. This reveals that there was something wrong in the Management of the Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti. Against this background, the present Study is a modest attempt to Analyze the Performance of the Firm.

Objectives of the Study

The present Study has the following objectives;

1. To examine the trends in assets and liabilities, net worth and capital employed, sales, cost of goods sold, gross profit and net profit of the firm.
2. To analyze the profitability position of the firm.
3. To examine the liquidity and solvency position of the firm.
4. To evaluate the effectiveness of the firm in utilizing resources.
5. To offer useful suggestions.

Review of Earlier Literatures

Dr.Keshab.C.Sinha (1999) [3]

The Researcher made an attempt to analyze the role and objectives of cooperative societies and private producers of handlooms industry. The Study was designed to address the main problems of the handloom cooperatives and private handloom industries located at Haripal Block of Hoogly District of West Bengal State. The Study concluded that the objectives of the cooperative societies are quite different from the private handloom industry. The main objectives of the cooperatives are to promote the welfare of the backward sections of the society and the main objectives of the private handloom industries is to increase their own wealth.

Roy T.S. (2006) [4]

The Researcher made an attempt to evaluate the financial and operational efficiency of the company by using secondary data collected from the Annual Reports of the Company and the Ministry of Petroleum. The Study used ratio analysis tools like Proprietary Ratio, Solvency Ratio, Leverage Ratio and EPS Ratio to examine the performance of Oil and Natural Gas Corporation. The Study concludes that the performance of the company was sound in majority of areas.

M.A.Lokande (2007) [5]

Lokande made an attempt to analyze the performance of Cooperative Spinning Mill of Jalna of Maharastra State. He also made an attempt to examine the problems of spinning mills. The Researcher adopted ratio analysis tools to evaluate the performance of cooperative spinning mill. The Study revealed that profitability and liquidity of the firm were very poor since the inception of the firm and concluded that the ailing firm was moving towards sickness.

T.Nambirajan (2007) [6]

The Researcher has made an attempt to find out the right product mix and to find out the list of products that have maximum contribution among the existing products. The Study suggested reducing the number of products from 74 to 39 based on the Linear Programming Model.

M.Edwin Gnanadhas, P.Geeta(2009)[7]

An attempt was made by the above authors, to analyze the financial performance of Employee Co-Operative Thrift and Credit Societies of Nagercoil and Thucklay, the revenue divisions of Kanyakumari District of Tamil Nadu State. They selected a sample of 23 and 13 societies from Nagercoil and Thucklay respectively for the purpose of Study. The main objective of the Study was to examine the financial performance of these societies. The Study concluded that the financial performance of these societies was noteworthy during the Study Period. The Study suggested rectifying the problems of the societies to make them exemplary cooperative societies.

Need and Importance of the Study

Finance is the scarcest resource in India and hence it needs to be utilized optimally. The sound performance of a firm depends on the well planning of capital structure, investment and distribution. Any firm that fails to apply the sound principles of capital structure like cost, control and flexibility and the firm that fails to adopt scientific tools of investment and distribution in managing funds will not survive in the long run. Further, the firm should apply the wealth maximization as criteria in taking financial decisions like financing, investment and distribution. Since finance is the lifeblood and nervous system of an enterprise, the importance of the timely appraisal of the performance of the firm can not be overemphasized. In addition, it is clear from the review of earlier literatures that there has been no study on the Performance Appraisal of the Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti. Hence the Researcher felt the need to undertake the present Study.

Research Methodology

The present Study is purely based on secondary data, i.e Annual Reports of the Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti. The data were extracted from financial statements like manufacturing accounts, trading accounts, profit and loss accounts and balance sheets of the firm from 2002-03 to 2008-09. The collected data were analyzed by using the Ratio Analysis. Further, statistical tools like Percentage, Trends and Tabulation, Mean, Standard Deviation, Coefficient of Variation and Growth Rate were also used for the purpose of the Study.

Scope of the Present Study

The present Study deals with the Performance Appraisal of the Gadag Cooperative Cotton Textile Mill Ltd, Hulkoti for the financial period from 2002-03 to 2008-09. The Liquidity, Profitability and Solvency Ratios were calculated to ascertain the Effectivenessof the Firm in financing, investment and distribution decisions. The Study also evaluated the trends in asset and liability structure and trends in capital employed and net worth of the firm. Further, it considered the trends in sales, cost of goods sold, gross profit/loss and net profit/loss during the Study Period.

Analysis of Performance of Firm

Table- 1 reveals that out of the total composition of capital and liabilities, share capital and reserve and surplus together constitute more than 60 per cent on an average from 2002-03 to 2008-09. Further, long term loan declined from 19.20 per cent in 2002-03 to 16.31 per cent in 2008-09 in the total composition of capital and liabilities of the firm. But the current liabilities and provisions increased only in 2003-04 and in 2006-07 compared to their respective previous years in composition of liability structure of the firm. The overall growth rate in reserves and surplus and long term loans were 20.58 per cent and -8.41 per cent respectively. This signifies that the firm tried to reduce the long term loans.

Table -2 reveals that the fixed assets increased over a period of time from 2002-03 to 2008-09 and the current assets increased in quantum except during 2004-05, 2007-08 and 2008-09 compared to their respective previous years from 2002-03 to 2008-09. The deposits, loans and advances have no consistency in the composition of asset structure of the firm and the accumulated net loss increased continuously till 2005-06 and it started declining in 2006-07 and 2007-08 and again it increased in 2008-09. This signifies that the loss assets increased and this needs immediate Internal Reconstruction of the Firm. The overall growth rate in fixed assets and current assets were 2.34 per cent and 8.44 per cent respectively whereas the overall growth rate in deposits, loans and advances was -38.22 per cent and accumulated loss went upto 41.47 per cent over a period of time.

Total capital employed was equal to the sum of fixed assets, deposits, loan and advances and networking capital and net worth was equal to capital employed less long-term loans. It is revealed from the **Table - 3** that the capital employed decreased continuously from 2002-03 to 2004-05 and thereafter increased at a decreasing rate and in 2008-09, it declined by 5.63 per cent. The net worth also decreased during 2003-04, 2004-05 and 2008-09 and increased during 2005-06, 2006-07 and 2007-08 compared to their respective previous years. The overall growth rate in capital employed and net worth were -1.50 per cent and 1.49 per cent respectively.

It is revealed from the **Table -4** that the sales of the firm went up during 2003-04, 2006-07 and 2007-08 and declined in 2004-05, 2005-06 and 2008-09 compared to their respective previous years. The cost of goods sold went up by 16.03 per cent in 2003-04 and declined every year till 2006-07 and it went up again in 2007-08 by 15.69 per cent and declined by 2.64 per cent in 2008-09. However, the trends in gross profit and net profit were negative and inconsistent. The overall growth rate in sales was 14.12 per cent and gross profit was only 1.81 percent. This signifies that there was no relation between growth rate in sales and gross profit.

Profitability is the overall measure of efficient and effective utilization of resources by the companies. Profitability Ratios indicate how efficiently the resources of the companies were used and how effectively the costs were controlled. Higher the Profitability Ratios, Higher the Performance while Lower the Profitability Ratios, Lower the Performance. Ratios like Gross Profit Ratio (gross profit/net sales) and Net Profit Ratio (net profit/net sales), Return on Capital Employed (net profit/capital employed), Return on Shareholders Net Worth (net profit/share holders net worth) and Return on Total Assets (net profit/total assets) were computed to examine the profitability position of the firm. It is clear from the **Table - 5** that Gross Profit Ratio was negative for the first two years and positive from 2004-05 onwards. However, Net Profit Ratio, Return on Capital Employed Ratio, Return on Shareholders Net Worth Ratio and Return on Total Assets Ratio were negative from 2002-03 to 2005-06 and in 2008-09 and they were positive only in 2006-07 and 2007-08. This trend in ratios signifies that firm has failed to manage the manufacturing and operating costs. Therefore, it is very essential to manage and minimize the manufacturing and operating cost to improve the profitability position of the firm. It is also clear from the calculation of Mean, Standard Deviation and Coefficient of Variation that there was lack of consistency in these ratios and there was more risk suffered by the firm.

Many firms are facing the problem of Balancing Profitability with Liquidity. Some firms are good in managing profitability but poor in managing liquidity and solvency and for other firms it is vice versa. But the success of the firm depends on their effectiveness in Balancing Liquidity with Profitability. Therefore, to be successful, the firm should meet these conflicting issues of Profitability and Liquidity. To assess the short term solvency, ratios like Current Ratio (current asset/current liabilities) and Quick Ratio (quick assets/current liabilities) and to assess the long term solvency, ratios like Solvency Ratio (net worth/total debt) and Debt Equity Ratio (debt/equity) should be computed. **Table -6** reveals that Current Ratio was less than the Ideal Ratio (2:1) except during 2007-08 and Quick Ratio was more than the Ideal (1:1) except during 2003-04 and 2004-05. This signifies that firm has made more investment in stock than required. Further, both Solvency Ratio and Debt Equity Ratio were more than the Ideal Ratio. This shows that the firm has given more importance to long-term solvency compared to short-term solvency and profitability. It is also clear from the calculation of Mean, Standard Deviation and Coefficient of Variation that there was consistency in the liquidity and solvency ratios.

The effectiveness of financial performance of the firm also depends on its effectiveness in utilizing the assets optimally. To examine the effectiveness of the firm in utilizing the assets optimally, it is necessary to compute Asset Turnover Ratio which involves comparison between the level of sales and investment in current assets and fixed assets. These ratios are used to measure the speed with which various accounts are converted into cash. Ratios like Finished Goods Turnover Ratio (FGTR=cost of goods sold/average stock of finished goods), Raw Material Turnover Ratio (RMTR=cost of material consumed/ average inventory of raw materials), Fixed Assets Turnover Ratio (FATR=sales/fixed assets), Current Assets Turnover Ratio (CATR=sales/current assets) and Debtor Turnover Ratio (DTR=credit sales/average account receivable) should be computed to examine the effectiveness of the firm in employing its resources. It evident from **Table-7** that the Finished Goods Turnover Ratio went up only during 2003-04 and 2007-08 compared to their respective previous years. The Raw Material Turnover Ratio decreased from 7.39 in 2002-03 to 7.33 in 2004-05 and increased to 9.68 per cent in 2005-06 but declined to 6.32 per cent in 2006-07 and again increased in 2008-09. Fixed and Current Assets Ratios went up continuously from 2002-03 to 2004-05 and thereafter these two ratios recorded ups and downs. The Debtor Turnover Ratio declined continuously except during 2004-05 and 2007-08 compared to their respective previous years. All these ratios signify that the firm failed to optimize its resource utilization. Mean, Standard Deviation and Coefficient of Variation were high in FGTR and low in FATR compared to other efficiency ratios.

Findings of the Study

The main findings of the Study are;

- The overall growth rate in reserves and surplus and long term loans were 20.58 per cent and -8.41 per cent respectively.
- The overall growth rate in fixed assets and current assets were 2.34 per cent and 8.44 per cent respectively whereas the overall

growth rate in deposits, loans and advances was -38.22 percent and accumulated loss went up 41.47 per cent over a period of time.

- The overall growth rate in capital employed and net worth were -1.50 per cent and 1.49 per cent respectively.
- There was no relation between the overall growth in sales and gross profit.
- Net Profit Ratio, Return on Capital Employed Ratio, Return on Shareholders Net Worth Ratio and Return on Total Assets Ratio were negative except during 2006-07 and 2007-08.
- The firm devoted more importance to long-term solvency compared to short-term solvency and profitability.
- Mean, Standard Deviation and Coefficient of Variation were high in FGTR and low in FATR compared to other efficiency ratios.

Suggestions

Based on the findings of the Study, the following suggestions are offered for improving the financial performance of the firm.

- Improving the efficiency of the firm by improving Stock Turnover Ratio, Raw Material Turnover Ratio, Debtor Turnover Ratio, Fixed and Current Asset Turnover Ratio.
- Improving the profitability by controlling direct and indirect expenses.
- Try to write off the losing assets by requesting lenders and owners to sacrifice.
- Firm must improve the Receivable and Cash Management by adopting sound financial principles to improve the liquidity position.
- Right sizing of human resource to economize the labour cost.
- Motivating employees by identifying their needs and boosting their morale.
- Studying the psychology of human resource to take advantage of synergy effects.
- Firm may also think of taking advantage of large scale operation by merging with cooperative textiles located in the neighbourhood.
- Change of management mind sets and coping with the changing technology to increase competitive strengths.

Conclusion

The overall performance of the Gadag Cooperative Cotton Textile Mill Ltd has been poor from 2002-03 to 2008-09. The gross profit and net profit, return on capital employed, return on share holders net worth and return on total assets ratios were negative during majority of the study period. Further, growth rate in sales, cost of goods sold, capital employed and net worth were very low and during some years, they were negative. Efficiency Ratios like Stock Turnover Ratio, Raw Material Turnover Ratio, Debtor Turnover Ratio, Fixed and Current Asset Turnover Ratio were not only low but also recorded a decreasing trend. Therefore, the firm must try to improve the performance by introducing various forms of Internal Reconstruction like alteration of share capital, reduction of share capital and writing off losing assets. In addition, the firm should improve the management of working capital areas like Credit Management, Inventory Management and Cash Management to improve the liquidity position and improve Office and Production Management to minimize the manufacturing and operating cost. The firm should also adopt strategies of human resource management like right sizing to improve the productivity and overall performance. In addition, the firm should look at the possibility of External Reconstruction in the form of Mergers and Acquisitions to take advantage of large-scale economies and to increase the competitiveness of the firm.

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Table - 1. Composition of Capital and Liabilities of the Firm (Rs in 000s)

Year	Composition of Capital and Liabilities				
	Share Capital	Reserves &Surplus	Long Term Loans	Current Liabilities and Provisions	Total
2002-03	81767(21.43)	162689(42.64)	73232(19.20)	63830(16.73)	381518(100.00)
2003-04	81767(20.13)	172320(42.43)	72927(17.95)	79152(19.49)	406166(100.00)
2004-05	81770(20.41)	179828(44.89)	72844(18.18)	66142(16.52)	400584(100.00)
2005-06	81770(20.25)	186068(46.08)	72595(17.98)	63391(15.69)	403824(100.00)
2006-07	81770(19.65)	190180(45.69)	71245(17.12)	73030(17.54)	416225(100.00)
2007-08	81771(19.94)	193508(47.19)	70717(17.25)	64035(15.62)	410031(100.00)
2008-09	81773(19.89)	196179(47.72)	67070(16.31)	66106(16.08)	411128(100.00)
Overall growth rate (%)	0.007	20.58	-8.41	3.57	

Source: Annual Reports of the Firm.
Figures in parentheses on the right of the figures indicate percentage to the total.

Table - 2. Asset Structure of the Firm (Rs in 000s)

Year	Composition of Assets				
	Fixed Assets	Deposits, Loans and Advances	Current Assets	Profit and Loss Account	Total
2002-03	150432(39.43)	38744(10.16)	117667(30.84)	74675(19.57)	381518(100.00)
2003-04	150515(37.06)	39995(09.85)	119316(29.38)	96340(23.71)	406166(100.00)
2004-05	151859(37.91)	38114(09.51)	106538(26.60)	104073(25.98)	400584(100.00)
2005-06	152293(37.71)	24757(06.13)	122472(30.33)	104302(25.83)	403824(100.00)
2006-07	153395(36.85)	24864(05.97)	141086(33.90)	96880(23.28)	416225(100.00)
2007-08	153553(37.45)	25666(06.26)	138462(33.77)	92350(22.52)	410031(100.00)
2008-09	153950(37.45)	23936(05.82)	127598(31.04)	105644(25.69)	411128(100.00)
Overall growth rate (%)	2.34	-38.22	8.44	41.47	

Source: Annual Reports of the Firm.
Figures in parentheses on the right of the figures indicate percentage to the total.

Table - 3. Capital Employed and Net Worth of the Firm (Rs in 000s)

Year	Capital Employed	Net worth
2002-03	243013	169781
2003-04	230674(-05.08)	157747(-07.09)
2004-05	230369(-00.13)	157525(-00.14)
2005-06	2236131(02.50)	163536(03.82)
2006-07	246315(04.37)	175070(07.05)
2007-08	253646(02.98)	182929(04.49)
2008-09	239378(-05.63)	172308(-05.81)
Overall growth rate (%)	-1.50	1.49

Source: Annual Reports of the Firm.

Figures in parentheses on the right of the figures indicate trends in growth rate in percentage as compare to their respective previous years.

Table - 4. Trends in Sales, Cost of Goods Sold, Gross Profit and Net Profit of the firm (Rs in 000s)

Year	Sales	Cost of goods sold	Gross profit	Net profit
2002-03	227837	232664	-4827	-15528
2003-04	264111(15.92)	274760(16.03)	-10649(-120.61)	-21665(-39.52)
2004-05	269933(02.20)	267396(-02.68)	2536(123.81)	-7734(64.30)
2005-06	246790(-08.57)	231022(-13.60)	15768(521.77)	-229(97.04)
2006-07	254656(03.19)	227364(-01.58)	27292(73.08)	7421(3340.61)
2007-08	274001(07.60)	263033(15.69)	10968(-59.81)	4531(-38.94)
2008-09	260009(-05.11)	256083(-02.64)	3926(-64.20)	-13213(-391.61)
Overall growth rate (%)	14.12	10.07	1.81	14.91

Source: Annual Reports of the Firm.
Figures in parentheses on the right the figures indicate trends in growth rate in percentage as compare to their respective previous years.

Table - 5. Profitability Ratios of the Firm.

Year	Profitability Ratios				
	Gross Profit	Net Profit	Return on Capital Employed	Return on Shareholders Net worth	Return on total Assets
2002-03	-2.12	-6.82	-7.13	-10.73	-5.06
2003-04	-4.03	-8.20	-10.09	-15.27	-6.99
2004-05	0.09	-2.87	-3.41	-5.02	-2.61
2005-06	6.39	-0.09	-0.10	-0.14	-0.08
2006-07	10.72	2.91	3.02	4.25	2.32
2007-08	4.00	1.65	1.79	2.48	1.43
2008-09	1.51	-5.08	-5.52	-7.67	-4.33
Mean	1.93	-2.64	-3.06	-4.59	2.19
Standard Deviation	5.30	4.28	4.85	7.18	3.52
Coefficient of Variation	2.74	1.62	1.58	1.57	1.61

Source: Annual Reports of the Firm.

Table - 6. Liquidity and Solvency Ratios of the Firm

Year	Liquidity and Solvency Ratios			
	Current Ratio	Quick Ratio	Solvency Ratio	Debt Equity Ratio
2002-03	1.84	1.02	1.14	0.52
2003-04	1.51	0.86	1.00	0.56
2004-05	1.61	0.81	1.11	0.49
2005-06	1.93	1.10	1.31	0.46
2006-07	1.93	1.08	1.32	0.49
2007-08	2.17	1.23	1.49	0.45
2008-09	1.93	1.28	1.29	0.48
Mean	1.85	1.05	1.24	0.49
Standard Deviation	0.22	0.17	0.16	0.04
Coefficient of Variation	0.12	0.16	0.13	0.08

Source: Annual Reports of the Firm.

Table - 7. Efficiency Ratios of the Firm

Year	Efficiency Ratios				
	FGTR	RMTR	FATR	CATR	DTR
2002-03	13.06	07.39	01.51	01.94	-
2003-04	13.93	07.33	01.75	02.21	05.75
2004-05	12.58	07.33	01.78	02.53	06.52
2005-06	10.34	09.68	01.62	02.02	05.60
2006-07	08.29	06.32	01.66	01.80	05.09
2007-08	10.06	06.53	01.78	01.98	05.47
2008-09	03.37	08.09	01.69	02.03	05.03
Mean	10.23	7.52	1.68	2.07	5.58
Standard Deviation	3.61	1.12	0.10	0.23	0.54
Coefficient of Variation	0.35	0.15	0.06	0.12	0.10

Source: Annual Reports of the Firm.