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A Study on Comparative Analysis of Liquidity and Profitability Position of Vardhman Textiles Ltd. and RITES Ltd.

Ms. Janvi Gaglani*

ABSTRACT

Indian Textile industry has played a pioneered role in growth and upliftment of country. The sector has offered employment to around 45 million people, by acting as one of the biggest employment generator sectors. In spite of having such a remarkable record, companies in textile industry are facing many problems like shortage of raw material, obsolete machinery, power shortage, low productivity of labour and competition in foreign market. So, the objective of the study is to measure and compare the relationship between profitability and liquidity of selected textile companies in India during the last five years. The secondary data collected is analysed using various statistical tools and techniques such as Ratio analysis. To measure the financial performance of selected textile companies, in terms of Profitability and Liquidity position of the companies, ratio analysis has been used.

KEYWORDS: PROFITABILITY, LIQUIDITY, RATIO ANALYSIS, TEXTILE COMPANIES.

Introduction

Liquidity refers to the ability of a firm to meet its short-term obligations. Liquidity plays a crucial role in the successful functioning of a business firm. A study of liquidity is major importance to both the internal and external analysts because of its close relationship with day to day operations of a business. A weak liquidity position poses a threat to the solvency as well as profitability of a firm and makes it unsafe and unsound. Liquid assets are those assets which can be turned into cash quickly with little or no loss of value.

***Ms. Janvi Gaglani , M.Com. and M. Phil. , Research Scholar , Department of
Commerce and Business Administration, Saurashtra University**

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Profitability is a measure of the amount by which firm's revenues exceeds its relevant expenses. Potential investors are interested in dividends and appreciation in market price of stock, so they pay more attention on the profitability ratios. Managers on the other hand are interested in measuring the operating performance in terms of profitability. Hence, a low profit margin would suggest ineffective management and investors would be hesitant to invest in the company.

Conceptual Framework

The term profitability and liquidity are the financial term that gives the idea about position of the company in the market. It is a technique to know the financial position and development of the selected textile companies. The performance of the textile companies is measured with the help of ratio analysis. The aim of performance measurement is to evaluate the profitability and liquidity of selected textile companies of India. There are many techniques to measure the performance of textile companies.

The performance of textile companies can be measured by using some selected ratios. The following ratios are used by researcher for the analysis of the performance of textile companies.

- Net Profit Ratio
- Return on Net Worth
- Return on Assets
- Current Ratio
- Quick Ratio
- Inventory Turnover Ratio

Review of Literature

(HIRALAL R. DESRANI, 2013) has analyzed COMPARATIVE STUDY OF RATIO ANALYSIS OF SELECTED TEXTILE COMPANIES OF INDIA. In this research, the researcher found that textile industry plays an important role in our economy. Indian textile industry is the second biggest generating employment industry in India. The researcher had collected the data on the basis of secondary data collection method and the data has been

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collected from the annual reports of the selected sample units. The researcher has used the data from 2008 to 2012 for the purpose of study. The researcher has used relevant accounting ratios and statically technique for analyzing the data. The researcher has simply classified the collected data through percentage, average and the researcher has tested hypothesis with the 5% level of significance to use in F test. The researcher has concluded that Indian textile industry has a wider scope in the international market of the world.

(Dr. Amalendu Bhunia, Mr. Islamuddin Khan and Mr. Somnath Mukhuti, 2011) has analyzed A STUDY OF MANAGING LIQUIDITY. In this research, the researcher has some objectives that were to evaluate the liquidity position of the selected private sector steel companies through the variables such as financial ratio and area of weaknesses, to examine the relationship between the liquidity and the profitability of the selected companies. The researcher has collected the data through secondary source of the data and the data has been collected from the company's annual report. For the purpose of study, the researcher has used the study period from 1997 to 2006 for analysation of the data. The researcher wanted to measure the liquidity of the selected samples and for that he has to calculate some ratios such as current ratio, liquid ratio, absolute liquid ratio, short-term debt-equity ratio, age of inventory, age of debtors and age of creditors in the independent variables and in dependent variables return on investment ratio was calculated.

(Qasim Saleem and Ramiz Ur Rehman, 2011) have analyzed IMPACTS OF LIQUIDITY RATIOS ON PROFITABILITY. In this research, the researcher has objective to analyze the relationship between profitability and liquidity of the selected companies of Pakistan. The sampling design of the study was researcher has selected 26 oil and Gas companies which were listed under Karachi Stock Exchange. The researcher has used secondary data for the data collection and interpretation and has covered the data from 2004 to 2009 for the study period and has used linear regression for the purpose of analyses of the collected data. The researcher has concluded that this study was a first attempt in finding out the relationship between the liquid ratios and profitability of the selected sample unit. The result of the study

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was that the liquid ratios were affected the profitability ratios of the selected companies of Pakistan which were listed under Karachi Stock Exchange.

(Sk. Mujibar Rahaman and Dr. Debasish Sur, 2014) has analyzed PROFITABILITY TRENDS IN SELECTED TEXTILE COMPANIES IN INDIA: A CROSS-SECTIONAL ANALYSIS. In this research, the researcher has the main focus on the study is on examine the profitability-status of that companies which are selected and familiar to textile industry in India. The researcher has an objective to evaluate their relationship between the productivity of managing their fixed assets with the profitability of some selected companies. The researcher has used secondary data for the purpose of study. The researcher had examined that this study has used 18 selected companies of the textile industry in India as the sample unit. He had used the data from 2002-03 to 2011-12 for the purpose of study. The researcher has examined that this study has mainly used the accounting ratio analysis as well as the sample arithmetic mean for the analysis and interpretation of the data.

Objectives of the study

- To measure the profitability and liquidity of selected textile companies during last five years.
- To compare the performance of selected textile companies.
- To find out the relationship between profitability and liquidity.

Research Methodology

Sampling Unit	Vardhman Textiles Ltd. and RITES Ltd.
Sample Type	Textile Industry
Sampling Techniques	Deliberate Sampling (Non-Random Sampling)
Period of Study	2015-16 to 2019-20 for five years
Data Collection	Secondary data collects from annual reports
Data Analysis	Tabulation
Hypothesis	Null Ho: There is no significant difference between various ratios of company

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Tools and Techniques	Accounting Technique: Financial ratios Statistical Technique: t-test
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Tools and Techniques of Analysis

To measure the performance of selected textile companies, in terms of Liquidity and Profitability of the companies, ratio analysis has been used. Further t-test has been used to identify if there exist a significant difference in the performance of different textile companies.

Analysis: The analysis part is carried out with the help of the following financial ratios:

- A. Profitability position: Net Profit Ratio, Return on Net Worth and Return on Assets,
- B. Liquidity position: Current Ratio, Quick Ratio and Inventory Turnover Ratio.

Hypothesis of the Study

- 1 **Ho:** There is no significant difference in Net Profit Ratio of Vardhman Textiles Ltd. and RITES Ltd.
- 2 **Ho:** There is no significant difference in Return on Net Worth Ratio of Vardhman Textiles Ltd. and RITES Ltd.
- 3 **Ho:** There is no significant difference in Return on Assets Ratio of Vardhman Textiles Ltd. and RITES Ltd.
- 4 **Ho:** There is no significant difference in Current Ratio of Vardhman Textiles Ltd. and RITES Ltd.
- 5 **Ho:** There is no significant difference in Quick Ratio of Vardhman Textiles Ltd. and RITES Ltd.
- 6 **Ho:** There is no significant difference in Inventory Turnover Ratio of Vardhman Textiles Ltd. and RITES Ltd.

Limitations of the Study

- Secondary data collected for the research study is collected from the annual reports, websites and various published reports and as such finding will depend entirely on the accuracy of such data.

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- The economic condition differs at different point of time which will affect the findings of the study.
- The present study is considering some selected ratios of profitability and liquidity only.

Ratio Analysis

Vardhman Textiles Ltd.

Years	Profitability Ratios			Liquidity Ratios		
	Net Profit Ratio	Return on Net Worth	Return on Assets	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2015-16	12.04	18.33	9.68	1.59	0.70	3.10
2016-17	17.60	25.12	14.39	1.72	0.92	3.58
2017-18	9.32	11.78	7.09	2.62	1.30	2.76
2018-19	10.84	13.28	8.31	2.43	1.01	2.63
2019-20	8.62	9.62	6.25	2.92	1.29	2.52

(Sources: Computed from Annual Reports of Company and www.moneycontrol.com)

The trend of the net profit ratio is fluctuating in nature, ratio of 2015-16 and 2016-17 is high as compared to 2019-20. So, it indicates that company is lacking in the management and demand for the products. The trend of the return on net worth ratio is showing mix trend during last 5 years. This ratio indicates the efficiency of the shareholders' capital to generate profit. The trend of the return on assets ratio is fluctuating in nature in the last 5 years, overall it is good because its more than 5% during the study period. It indicates the capital intensity of the company. The trend of the current ratio is also in mix trend in past 5 years but the ratios are not less then 1.50 so its good for the company and it indicates that company can pay all debts due within one year out of the current assets. The trend of the quick ratio is also fluctuating, in the year 2015-16 and 2016-17 the ratio is less than 1 so it means that their quick assets is less than their current assets. During last 3 years, ratio is more than 1 so it

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indicates that the company can pay off its current debts without selling its long-term assets. The trend of the inventory turnover ratio is also in mix trend during last 5 years.

BITES Ltd.

Years	Profitability Ratios			Liquidity Ratios		
	Net Profit Ratio	Return on Net Worth	Return on Assets	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2015-16	31.25	18.07	7.96	1.57	1.56	95.18
2016-17	25.46	16.25	7.10	1.85	1.56	25.77
2017-18	23.40	15.36	6.69	1.63	1.63	153.44
2018-19	22.58	18.65	8.46	1.67	1.63	18.76
2019-20	24.84	23.14	10.43	1.72	1.72	224.98

(Sources: Computed from Annual Reports of Company and www.moneycontrol.com)

The trend of the net profit ratio is fluctuating in nature, ratio of 2015-16 and 2016-17 is high as compared to 2018-19. So, it indicates that company is lacking in the management and demand for the products. The trend of the return on net worth ratio is showing mix trend during last 5 years, the highest ratio is 23.14 in the year 2019-20 as compared to others. This ratio indicates the efficiency of the shareholders' capital to generate profit. The trend of the return on assets ratio is increasing in nature in the last 5 years, overall it is good because its more than 5% during the study period. It indicates the capital intensity of the company. The trend of the current ratio is also in mix trend in past 5 years and the ratios are not less than 1.50 so it's good for the company and it indicates that company can pay all debts due within one year out of the current assets. The trend of the quick ratio is increasing ratio are more than 1 so it indicates that the company can pay off its current debts without selling its long-

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term assets. The trend of the inventory turnover ratio is also in mix trend during last 5 years, the highest ratio is 224.98 in the year 2019-20 as compared to other years.

A Table Showing t-test for Testing Significant Difference Between Profitability and Liquidity Ratio of Vardhman Textiles Ltd. and RITES Ltd.

Particulars	Degree of Freedom	t-calculated value	t-critical value	Ho – Accepted/Rejected
Net Profit Ratio	8	-6.27	2.31	Ho - Accepted
Return on Net Worth	8	-0.87	2.31	Ho - Accepted
Return on Assets	8	0.64	2.31	Ho - Accepted
Current Ratio	8	2.16	2.31	Ho - Accepted
Quick Ratio	8	-4.88	2.31	Ho - Accepted
Inventory Turnover Ratio	8	-2.58	2.31	Ho - Accepted

Findings and Conclusion

Researcher have used independent t-test for the analysis of various ratios. The table value of the independent t-test is 2.3060. with the help of data, researcher may state that there is no significant difference in net profit ratio, return on net worth, return on assets, current ratio, quick ratio and inventory turnover ratio of Vardhman Textiles Ltd. and RITES Ltd. as the null hypothesis has been accepted. Researcher has been concluded that all the ratios of sample units are performing good because the null hypothesis has been accepted.

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The study concludes that there is no significant difference in the performance of the selected companies in textile industry in terms of their liquidity and profitability position. RITES Ltd. has been leading the textile companies in terms of profitability as compared to Vardhman Textiles Ltd. Vardhman Textiles Ltd. has high current ratio as compared to RITES Ltd. and over all RITES Ltd. has been leading the textile companies in terms of liquidity as compared to Vardhman Textiles Ltd.

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