

# PERFORMANCE MEASUREMENTS OF EXPORT GARMENTS MANUFACTURING COMPANIES IN KARUR DISTRICT

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**ABSTRACT**--Working capital is being considered as one of the measures of an efficiency of the firm. It means the availability of cash to meet its day-to-day operations of any enterprise. It is also denoted as a benchmark of any firm's short-term financial position. Each and every business has to plan effectively for the utilization of working capital. The firm has to maintain optimum level of working capital in order to maintain a balance between the profitability and liquidity of the firm. It should not maintain neither excessive nor deficit working capital. Both lead to affect the goodwill of the firm. This article may explain the performance measurements of working capital management and its impact on profitability of select export garment companies in Karur district (ie) Asian Fabricx Private Limited and Sri Laxmi Exports. To explore the relationship between the working capital management and profitability, eight variables are considered as independent variables like current ratio, total assets turnover ratio, fixed assets turnover ratio, debtors turnover ratio, working capital turnover ratio, average payment period, average collection period and cash collection period whereas Return on Assets are taken as dependent variable. Pearson's correlation is taken as tool to examine its relationship exists between them. The investigation concludes the performance measurements of export garment manufacturing companies are significant.

**Keywords**--Working capital, export garment, trade, correlation, profit

## I. INTRODUCTION

Working Capital Management is one of the most vital and significant aspect of short-term financial matters of any concern. Companies of all dimensions' exhibit sensitivity of their profit performance to the capable management of their working capital. Though, which type of companies like small and large exhibit relatively more responsiveness to proficient working capital management is difficult to understand. Most probably small firms and large companies are various from each other in that working capital management may influence more and less the profitability of one or the other.

A company prerequisite to be capable in managing Working capital to manage its cash flows and finally decreasing its reliance on exterior financing. The working capital examined the liquidity of a company which is vital for the everyday operations in order to meet require and increase its profitability. A firm should effectively manage its working capital in order to remain its profitability and risk and definitely aid maximize shareholders value. Furthermore, incompetent governance of the working capital may increase threat of indebtedness even the

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firm is maintaining its profitability. The profitability of a firm noted the financial reap that a company provides and the ability of the company to earn profits. There are few variables that find the profitability of a firm like return on assets, return on equity and return on investment. So, it becomes essential to study the relation between profitability and working capital. Sufficient working capital allows management to get advantage of unanticipated opportunities and to entitled for bank loan and flattering business credit conditions. In the conventional business cycle of a firm, working capital equals working assets.

The Indian garment sector gives the largest employment in India and contributes almost 14 percent to the exports by the country. In order to keep its position, the export sector require to give high quality products at economical cost and it also plays significant role in the Indian Industrial sector. The garment sector has hope potential due to high required in the Indian Market and international need hence this study is important to understand the association between working capital on profitability in the garment Industry. The study will aid companies make few important decisions such as decision on inventory levels or the credit period that the companies can provide its debtors in order to clear their bills, so that the profitability of the firm increases and few more crucial determinations. Therefore the study aims to answer whether there is relationship between Working Capital on Profitability with the aid of certain variables which are the two subjects of this study. Karur has thousands of exporters and also their products are being exported to the International foremost chain stores. Due to this good atmosphere India is extremely gaining its foreign exchange in past period.

## II. REVIEW OF LITERATURE

Many researchers investigated on working capital management on profitability. Few assessments were composed to investigate for the present study.

Monica Singhania, Piyush Mehta (1) researched on "Working capital management and firms' profitability: evidence from emerging Asian countries". She states that extravagant working capital can impair the profits and health of an organization and she has scrutinized the consequences of working capital management on the profitability of firms for a selected non-financial companies in countries of South East Asia, South Asia, and East Asia. She imparts that the study has a non-linear alliance between the profitability of a firm and Working Capital Management for 11 economies of the Asia Pacific region.

Ramesh Gengatharan Hamad Saeed Suliman AL-Habsi Tammam Salam Hamood AL-Sharji (2) explored on "Effect of Working Capital Management on the Financial Performance of Manufacturing Firms in Sultanate of Oman". He assessed the company ability to pay off short-term liabilities. Data have been poised from 19 manufacturing companies listed in MSM for 10 years period and the study concluded that the debtor management, inventory management, creditor management and cash conversion cycle have negative outcome on the performance of finance for the listed manufacturing firms in Sultanate of Oman.

Shikha Bhatia, Aman Srivastava (3) revealed the relationship between, "Working capital management and firm performance in an emerging economies: Evidence from India". They found a negative effect on firm performance necessitating the requisite to efficiently manage the working capital for enhanced profitability.

Joseph Mbawuni & Mercy Hawa Mbawuni & Simon Gyasi Nimako (4) examined on "The Impact of Working Capital Management on Profitability of Petroleum Retail Firms: Empirical Evidence from Ghana". They found

that there is favorable net working capital for the firms and a favorable networking capital to total assets ratio. The most important WCM component that drives the firm's profitability, measured in return on assets (ROA), is average days payable (ADP). The rest of WCM components, cash conversion cycle (CCC), average days inventory (ADI) and average days receivables (ADR) did not have a significant relationship with profitability. They found that Working Capital Management practices among the five selected PRFs support the aggressive strategy of WCM.

Leonidas Ngendakumana, Nelson Jager and Francis Condo (5) emphasized on "The Impact of Working Capital Management on the Profitability of Smart Bags Limited Manufacturing Firm in Zimbabwe". An attempt was made to study the correspondence between measures of working capital management efficiency and profitability. The study outlined the significant and non-significant relationship between the dependent variable and independent ones. It was noticed that there is a weak negative correlation between Average Collection Period and profitability and between the Cash Conversion Cycle and profitability too. They also divulged that there is a strong negative relationship between the debt ratio and profitability and also between a company's aggressiveness of working capital financing policy and its profitability.

### **III. OBJECTIVES OF THE STUDY**

The aims of the study are as follows:

1. To analyse the management of working capital for the selected garment export companies in Karur.
2. To identify the profitability position of the selected garment export companies in Karur.
3. To suggest the suitable better performance of the select companies for its further improvement.

### **IV. PERIOD OF THE STUDY**

The study period is confined to ten years started from the financial year 2008-09 to 2017-18 and necessary data were collected from the garment export companies in Karur District.

### **V. RESEARCH METHODOLOGY**

#### **Sample Size**

For the purpose of study, two garments export companies have been selected in Karur District namely, Asian Fabricx Private Limited and Sri Laxmi Export. . To conduct the study for making the comparison between the selected companies, the secondary data method has been selected and data are taken from the respective companies' annual reports, magazines and websites.

#### **Statistical Tools**

The descriptive analysis has been done for the study period are mean, standard deviation and coefficient of variance. To make the study more effective, the researcher applied Pearson's correlation scrutiny to compare the consequences of working capital management on profitability for the select companies.

### **VI. ANALYSIS**

### **Current Ratio**

It is a metric used to define the relationship between the current assets and current liabilities. The standard norm of the current ratio is 2:1. Current Ratio equivalent to Current Assets/Current Liabilities.

**Table 1: CURRENT RATIO (in times)**

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
<b>2008-09</b>	1.89	1.01
<b>2009-10</b>	1.82	2.06
<b>2010-11</b>	1.33	3.80
<b>2011-12</b>	0.81	2.74
<b>2012-13</b>	0.76	1.74
<b>2013-14</b>	1.22	1.35
<b>2014-15</b>	1.72	1.59
<b>2015-16</b>	2.14	1.30
<b>2016-17</b>	2.17	1.98
<b>2017-18</b>	2.41	2.83
<b>Mean</b>	<b>1.63</b>	<b>2.04</b>
<b>SD</b>	<b>0.57</b>	<b>0.86</b>
<b>CV (%)</b>	<b>35.26</b>	<b>41.96</b>

**Source:** CMIE Prowess Data

It is found from the above table that the average current ratios of Sri Laxmi Exports are 2.04 crores whereas Asian Fabrics Private Limited is 1.63 crores. The co-efficient of variation of AFPL is 35.26% and implies a low degree of variation when compared to SLE, registered by 41.96%.

### **Total Assets Turnover Ratio**

It tells the interconnection between the total assets and net sales of the concern. The standard norm of total assets turnover ratio is 2:1. Total Assets Turnover Ratio is equivalent to Net Sales/Total Assets

**Table 2: TOTAL ASSETS TURNOVER RATIO (in times)**

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
<b>2008-09</b>	2.020	1.424
<b>2009-10</b>	1.691	1.297
<b>2010-11</b>	1.242	0.849
<b>2011-12</b>	0.814	0.725
<b>2012-13</b>	0.712	0.628
<b>2013-14</b>	0.691	0.565
<b>2014-15</b>	0.708	0.835
<b>2015-16</b>	0.721	0.635

<b>2016-17</b>	0.723	0.821
<b>2017-18</b>	0.782	0.712
<b>Mean</b>	<b>1.01</b>	<b>0.85</b>
<b>SD</b>	<b>0.48</b>	<b>0.29</b>

**Source:** CMIE Prowess Data

It is found from the above table that the average value of total assets turnover ratio is 1.01 crores in AFPL whereas the mean value is reduced to 0.85 crores in SLE. The co-efficient of variation of total assets turnover ratio is better in case of SLE at 33.81 % when compared to AFPL at 47.53 %.

### ***Fixed Assets Turnover Ratio***

It shows the efficiency of a concern about how the fixed assets are utilized for generating more sales. Higher the ratio more productive the concern. Fixed Assets Turnover Ratio equals to Net Sales/ Net fixed assets

**Table 3: FIXED ASSETS TURNOVER RATIO (in times)**

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
<b>2008-09</b>	0.634	0.837
<b>2009-10</b>	0.806	1.014
<b>2010-11</b>	0.986	1.648
<b>2011-12</b>	1.256	1.878
<b>2012-13</b>	1.365	2.094
<b>2013-14</b>	1.651	2.554
<b>2014-15</b>	1.836	1.479
<b>2015-16</b>	1.930	2.007
<b>2016-17</b>	2.082	1.521
<b>2017-18</b>	2.257	2.010
<b>Mean</b>	<b>1.48</b>	<b>1.70</b>
<b>SD</b>	<b>0.56</b>	<b>0.52</b>
<b>CV (%)</b>	<b>37.68</b>	<b>30.32</b>

**Source:** CMIE Prowess Data.

It is noted from the above mentioned table that the connote value of fixed assets turnover ratio is 1.48 crores in AFPL and 1.70 crores in SLE. The SLE fixed assets turnover ratio is better than the AFPL because the former concern might generate more sales from its existing fixed assets. The co-efficient of variation of fixed assets turnover ratio is good in case of SLE when compared to AFPL.

### ***Debtors Turnover Ratio***

It is also termed as Receivables turnover ratio. It estimates how rapidly the credit sales are being transformed into cash. Higher the ratio, more efficient the concern to encash from its customers. Debtors turnover ratio equals to Net credit sales / Average debtors

**Table 4: DEBTORS TURNOVER RATIO (in times)**

Year	AFPL	SLE
2008-09	25.55	17.21
2009-10	9.25	31.84
2010-11	15.44	11.63
2011-12	36.98	23.15
2012-13	60.91	15.91
2013-14	83.66	19.62
2014-15	82.04	15.25
2015-16	26.61	19.54
2016-17	12.88	19.31
2017-18	42.98	13.00
Mean	<b>39.63</b>	<b>18.65</b>
SD	<b>27.49</b>	<b>5.76</b>
CV (%)	<b>69.36</b>	<b>30.90</b>

Source: CMIE Prowess Data.

It is depicted from the given table that the average debtor's turnover ratio is better in AFPL than that of SLE. But, the co-efficient of variation shows that the SLE is in comfort zone when compared to AFPL.

### ***Working Capital Turnover Ratio***

It means that how frequently the working capital is turned over in the course of a year. A higher ratio stipulates the efficient management of working capital. Working capital turnover ratio equals to Cost of goods sold / Net working capital

**Table 5: WORKING CAPITAL TURNOVER RATIO (in times)**

Year	AFPL	SLE
2008-09	3.34	345.09
2009-10	2.94	6.82
2010-11	7.55	4.75
2011-12	-17.36	7.05
2012-13	-12.41	9.50
2013-14	18.61	19.60
2014-15	7.72	12.26
2015-16	6.27	21.72
2016-17	4.80	8.59
2017-18	3.87	6.02
Mean	<b>2.53</b>	<b>44.14</b>
SD	<b>10.28</b>	<b>105.90</b>
CV (%)	<b>406.08</b>	<b>239.90</b>

Source: CMIE Prowess Data

It is divulged from the above table that the mean value of working capital turnover ratio endowed by 2.53 crores in AFPL followed by 44.14 crores in SLE. The co-efficient of variation of working capital turnover ratio registered by 406.08 per cent in AFPL followed by 239.90 per cent in SLE.

### ***Average Payment Period***

It means the average time taken to make the payment to its creditors. Average Payment Period equals to  $365 / \text{Creditors Turnover Ratio}$

**Table 6: AVERAGE PAYMENT PERIOD (in days)**

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
<b>2008-09</b>	930	557
<b>2009-10</b>	678	559
<b>2010-11</b>	474	347
<b>2011-12</b>	179	272
<b>2012-13</b>	92	232
<b>2013-14</b>	85	163
<b>2014-15</b>	59	308
<b>2015-16</b>	23	222
<b>2016-17</b>	8	282
<b>2017-18</b>	26	193
<b>Mean</b>	<b>255</b>	<b>314</b>
<b>SD</b>	<b>325</b>	<b>140</b>
<b>CV (%)</b>	<b>127.2</b>	<b>44.6</b>

**Source:** CMIE Prowess Data

It is determined from the above table that the mean value of average payment period endowed by 255 days in AFPL and followed by 314 days in SLE. The co-efficient of variation of average payment period endowed by 127.2 per cent in AFPL followed by 44.6 per cent in SLE which shows betterness in SLE when compared to AFPL.

### ***Average Collection Period:***

It is the period of time that a business takes to recover the money indebted by its customers. Average Collection Period equals  $365 / \text{Debtors Turnover Ratio}$

**Table 7: AVERAGE COLLECTION PERIOD(in days)**

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
2008-09	14	21
2009-10	39	11
2010-11	24	31

2011-12	10	16
2012-13	6	23
2013-14	4	19
2014-15	4	24
2015-16	14	19
2016-17	28	19
2017-18	8	28
<b>Mean</b>	<b>15</b>	<b>21</b>
<b>SD</b>	<b>12</b>	<b>6</b>
<b>CV (%)</b>	<b>76.49</b>	<b>27.56</b>

**Source:** CMIE Prowess Data

It is observed from the above table that the average collection period is better in AFPL as it has 15 days to recover its amount owed by its creditors when compared to SLE which has 21 days' time period to recover its amount. On the other hand, the co-efficient of variation is 76.49 % in AFPL followed by 27.56% in SLE.

### ***Cash Conversion Period***

It is also known as Net operating cycle. It explains the time taken by an establishment to receive cash from its clients after it has invested into purchasing the stocks/ inventory. The CCC is shorter, good for the firm.

Cash Conversion Cycle = (Days inventory outstanding+ Days sales outstanding – Days Payable Outstanding) X 365

**Table 8:** CASH CONVERSION CYCLE (in days)

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
<b>2008-09</b>	174	56
<b>2009-10</b>	186	103
<b>2010-11</b>	145	104
<b>2011-12</b>	56	79
<b>2012-13</b>	45	89
<b>2013-14</b>	81	64
<b>2014-15</b>	94	76
<b>2015-16</b>	92	68
<b>2016-17</b>	104	79
<b>2017-18</b>	120	88
<b>Mean</b>	<b>110</b>	<b>81</b>
<b>SD</b>	<b>47</b>	<b>16</b>
<b>CV (%)</b>	<b>42.6</b>	<b>19.6</b>

**Source:** CMIE Prowess Data



It is examined from the above table that the mean value of cash conversion cycle endowed by 110 days in AFPL followed by 81 days in SLE whereas the co-efficient of variation of cash conversion cycle endowed by 42.6 per cent in AFPL followed by 19.6 per cent in SLE

### ***Return On Total Assets***

It is the ratio which evaluates the company's earnings before interest and tax (EBIT) relative to its total net assets. Higher ROA denotes the sound financial and operational performance. Return on Total Assets = Net Profit after tax + Interest/ Total assets – Fictitious assets multiplied by 100

**Table 9: RETURN ON TOTAL ASSETS (in percentage)**

<b>Year</b>	<b>AFPL</b>	<b>SLE</b>
<b>2008-09</b>	2.53	-3.78
<b>2009-10</b>	5.00	0.17
<b>2010-11</b>	10.46	1.93
<b>2011-12</b>	7.53	0.10
<b>2012-13</b>	10.95	5.05
<b>2013-14</b>	14.61	12.61
<b>2014-15</b>	14.59	7.96
<b>2015-16</b>	12.53	9.06
<b>2016-17</b>	14.58	7.49
<b>2017-18</b>	13.36	6.43
<b>Mean</b>	<b>10.61</b>	<b>4.70</b>
<b>SD</b>	<b>4.28</b>	<b>4.99</b>
<b>CV (%)</b>	<b>40.37</b>	<b>106.19</b>

**Source:** CMIE Prowess Data

It is noted from the above table that the mean value of return on total assets endowed by 10.61 crores in AFPL followed by 4.70 crores in SLE. The co-efficient of variation of return on total assets registered by 40.37 per cent in AFPL followed by 106.19 per cent in SLE.

### ***Correlation Analysis***

Correlation analysis has been applied to study the association between the independent variables and the dependent variable. The correlation results are used to decide the test stating whether there exists a extremity of correlation between return on total assets and selected independent variables. To justify the results of the correlation between the independent and dependent variables, the following table is presented below.

**Table 10: Correlation Analysis**

<b>No</b>	<b>Variables</b>	<b>AFPL</b>	<b>SLE</b>
1	Current Ratio	-0.001	-0.438

2	Total Assets Turnover Ratio	-0.898	-0.394
3	Fixed Assets Turnover Ratio	0.899	0.327
4	Debtors Turnover Ratio	0.390	-0.568
5	Working Capital Turnover Ratio	0.432	0.271
6	Average Payment Period	-0.789	-0.492
7	Average Collection Period	-0.390	0.568
8	Cash Collection Period	-0.474	-0.425

The above table clearly tells us the correlation between the return on total assets of the selected garment undertakings and selected eight independent variables that are influenced the return on total assets of the companies. It is identified from the Asian Fabricx Private Limited that among the eight selected variables, only one factor viz., fixed assets turnover ratio is having positive significant association with the return on total assets. The variables total assets turnover ratio and average payment period are having negative significant association. On the other hand, the variables current ratio, debtors turnover ratio, working capital turnover ratio, average collection period and cash collection period are not having any significant association with the return on total assets of the company. In the case of Sri Laxmi Export, it is stated that all the variables are not having any association with the return on total assets of the company.

## VII. CONCLUSION

The main intention of the study is to identify the performance measurements of working capital management on its profitability for the selected two companies on export garment companies in Karur district. Return on total assets are being considered as the measuring tool for its efficiency. With regard to Asian Fabrics Private Limited, only fixed assets turnover ratio is having positive association with the Return on total assets whereas there exists no relationship in Sri Laxmi Exports. The result recommends to strengthen the production scope and uses advanced technology to retrench the cost of production and in order to improve the profitability in terms of investment and turnover. Also, the company Sri Laxmi Export may be require for additional sophistication of the liquidity ratio, by reducing the apparently unmovable inventories and doubtful liabilities, etc. from the current assets. To recapitulate, both the companies are advised to put efforts to increase the working capital management.

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