

ASSOCHAM
FINANCIAL
PULSE
STUDY

Quarterly Performance Analysis of Textile Sector

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EXECUTIVE SUMMARY

- ❖ The aggregate net profit of 28 textile companies declined by 39.82 per cent to Rs 524.93 crore in second quarter of 2008-09 from Rs 872.31 crore in the same period of FY'08.
- ❖ Out of these 28 textile companies, in Q2 FY '08 from the 11 textile firms that posted net losses the number risen to as many as 20 textile companies in Q2 FY'09.
- ❖ The textile companies net sales grew hardly by 12.29 per cent to Rs. 7016.33 crore in Q2 FY'09 from Rs. 6248.67 crore in Q2 FY'08.
- ❖ The interest cost of the 28 textile units went up by 27.07 per cent in the second quarter of FY 09 while the rise in sales was only 12.29 per cent.
- ❖ The cost on power and fuel by the 19 textile companies grew by 35.18 per cent to Rs. 1240.29 crore in Q2 FY'09 from Rs. 917.50 crore in Q2 FY'08

INTRODUCTION

TIME PERIOD

The report prepared by ASSOCHAM Research Bureau has taken corporate results announced by textile during the second quarter ending September 2008. Organized manufacturing companies that have announced their results during 20th October- 14th November 2008-09, have been taken for analysis.

DATA SOURCE

The report is prepared on the data posted by textile companies on the Bombay Stock Exchange website.

SAMPLE SIZE

The ASSOCHAM Research Bureau (ARB) has taken 28 textile companies for the performance analysis of the sector.

PARAMETERS

The analysis of the textile companies is based on the parameters including net sales, net profit, interest cost, raw material cost and power & fuel cost.

METHODOLOGY

Simple average and sum of the parameters are taken for analysis of the study.

Declining sales and rising costs worsens the textile sector conditions: AFP

The deteriorating condition of textile sector is getting critical with no signs of relief visible as the financial statements of the textile companies show whopping 40 per cent decline in their bottomline, with as many as 70 per cent of them incurring net losses.

According to the Assocham Financial Pulse (AFP) study on “**Quarterly Performance Analysis of Textile Sector**”, worn off by the recessionary trends in developed countries, the biggest market for the Indian textile industry, the textile firms have registered only 12 per cent rise in sales, which comes to negligible considering the inflation rate which was hovering at around 11 per cent for the quarter ending September 2008.

The analysis of the textile sector was based on the quarterly results posted by 28 Indian textile companies, on Bombay Stock Exchange (BSE) from 20th October - 14th November 2008. The AFP analysis of the Indian textile sector is based on parameters including net sales, net profit, interest cost, raw material cost and power & fuel cost.

As per the AFP study, the aggregate net profit of 28 textile companies declined by 39.82 per cent to Rs 524.93 crore in second quarter of 2008-09 from Rs 872.31 crore in the same period of FY'08. Out of these 28 textile companies, in Q2 FY '08 from the 11 textile firms that posted net losses the number risen to as many as 20 textile companies in Q2 FY'09. Textile firms such as RSWM Limited that registered net profit of Rs. 5.01 crore in the second quarter of FY 2007-08, witnessed net losses of Rs. 23.85 crore in the second quarter of current financial year, followed by Himatsingka Seide Limited that recorded net profit of Rs.

11.46 crore in Q2 FY'08 witnessed net losses of Rs. 20.49 crore in Q2 FY'09, among others.

The surging raw material cost, long power cuts, high credit cost and slump in demand for textile products attributed to the woes of the textile companies as their net sales grew hardly by 12.29 per cent to Rs. 7016.33 crore in Q2 FY'09 from Rs. 6248.67 crore in Q2 FY'08; however, the costs borne by the companies were much higher at 27.07 per cent and 22.30 per cent in interest and raw material respectively.

Performance Analysis of Textile Sector

Parameters	Q2 FY'09	Q2 FY'08	Per cent Change
28 Textile Companies			
Net Sales	7016.33	6248.67	12.29
Net Profit	524.93	872.31	-39.82
Interest Cost	176.95	139.25	27.07
Raw Material Cost	2277.25	1862.02	22.30
19 Textile Companies			
Power & fuel Cost	1240.29	917.50	35.18

Source: Corporate Announcements for the quarter ending September 2008-09.

Rise in interest cost borne by the textile companies was higher than the rise in net sales. The borrowing cost of the 28 textile units went up by 27.07 per cent in the second quarter of FY 09 while the rise in sales was only 12.29 per cent. As many as 20 textile companies registered rise in interest cost, the maximum increase was incurred by Himatsingka Seide Limited (74.38 per cent) followed by K.P.R Mill Limited (70.42 per cent) and RSWM Limited (61.94 per cent) among others.

High interest rates also checked the growth of credit disbursement to the sector as according to the RBI data, the growth in non-food gross bank credit given to

the textile sector kept on falling from 39 per cent as on August 17, 2006 to 28.7 per cent on August 31, 2007 to further 23.1 per cent on August 29, 2008.

The effect of rise in raw material cost is largely felt as price of raw cotton has increased from Rs. 49.62 per kg in September 2006 to Rs. 74.42 per kg in September 2008. Cotton accounts for almost 74 per cent of total yarn output. The 28 textile units witness a rise in the cost of their raw material by 22.30 per cent in Q2 FY'09 to Rs. 2277.25 crore from Rs. 1862.02 per cent in Q2 FY'08. The companies that witness maximum rise in raw material cost include Nitin Spinners Limited (62.75 per cent) and K.P.R Mill Limited (55.11 per cent) among others in Q2 FY'09 as against Q2 FY'08.

The cost on power and fuel by the 19 textile companies that have provided information regarding power and fuel cost in their financial statement for the quarter ending September 2008-09 grew by 35.18 per cent to Rs. 1240.29 crore in Q2 FY'09 from Rs. 917.50 crore in Q2 FY'08. Among the companies, Century Enka Limited incurred maximum expenditure on the cost of power and fuel by 60.67 per cent, along with Ambika Cotton Mills Limited (58.06) and Nitin Spinners Limited (39.29 per cent).

ANNEXURE

The 28 textile companies that have been analyzed for the study:

Name of the textile company
Ambika Cotton Mills Limited
Century Enka Limited
Century Textile and Industries Limited
Cheslind Textiles limited
Ginni International Limited
Gokak Textile Limited
Grasim Industries Limited
GTN Textile
Himatsingka Seide Limited
K.P.R Mill Limited
KKCL (Kewal Kiran Clothing Limited)
Morarjee Textiles Limited
Nitin Spinners Limited
Oswal Yarns Limited
Pranavadiya Spinning Mills Limited
RSWM Limited
Shamken Cotsyn Limited
Shamken Spinners Limited
Shri Dinesh Mills Ltd.
Shri Jamshri Ranjitsingh ji Spg. & Wvg. Mills Co. Ltd
Soma Textile & Industries Limited
Sri Nachammai Cotton Mills Limited
Super Sales India Limited
Tamilnadu Jai Bharath Mills Limited
The Lakshmi Mills Company Limited
The Sri Ganapathy Mills Company Limited
Vishal Cotspin Limited
Winsome Textile Industries Limited