

FACTORS OF PRODUCTION VIS-A-VIS PROFITABILITY OF TEXTILE INDUSTRY IN INDIA

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ABSTRACT

Every industry is either labor intensive or capital intensive or capital intensive. As far as textile industry of India is concerned it can be broadly classified into two parts i.e. cotton and blended mills and non-cotton mills. This paper attempts to test a hypothesis that, cotton mills are labor intensive and non cotton mills are capital intensive, on the basis of financial results of mills for the financial year 2008-2009. On acceptance or rejection of the above said hypothesis it explores the reasons of acceptance or rejection and then suggests the remedial measures.

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Industry Overview

India Textile Industry is one of the leading textile industries in the world. Though was predominantly unorganized industry even a few years back, but the scenario started changing after the economic liberalization of Indian economy in 1991. The opening up of economy gave the much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world.

Indian textile industry largely depends upon the textile manufacturing and exports. It also plays a major role in the economy of the country. India earns about 27% of its total foreign exchange through textile exports. Further, the textile industry of India also contributes nearly 14% of the total industrial production of the country. It also contributes around 3% to the GDP of the country.¹ Indian textile industry is also the largest in the country in terms of employment generation. It not only generates jobs in its own industry, but also opens up scope for the other ancillary sectors. Indian textile industry currently generates employment to more than 35 million people. It is also estimated that, the industry will generate 12 million new jobs by the year 2012. The industry is estimated to be around US\$ 115 billion by the year 2012. The current domestic market of textile in India is expected to be increased to US\$ 60 billion by 2012 from the current US\$ 34.6 billion. The textile export of the country was around US\$ 19.14 billion in 2006-07, which saw a stiff rise to reach US\$ 22.13 in 2007-08. The share of exports is also expected to increase from 4% to 7% within 2012.²

Fabric Production in India:

Table 1
Fabric Production in India

Mn.Sq.Mtrs.

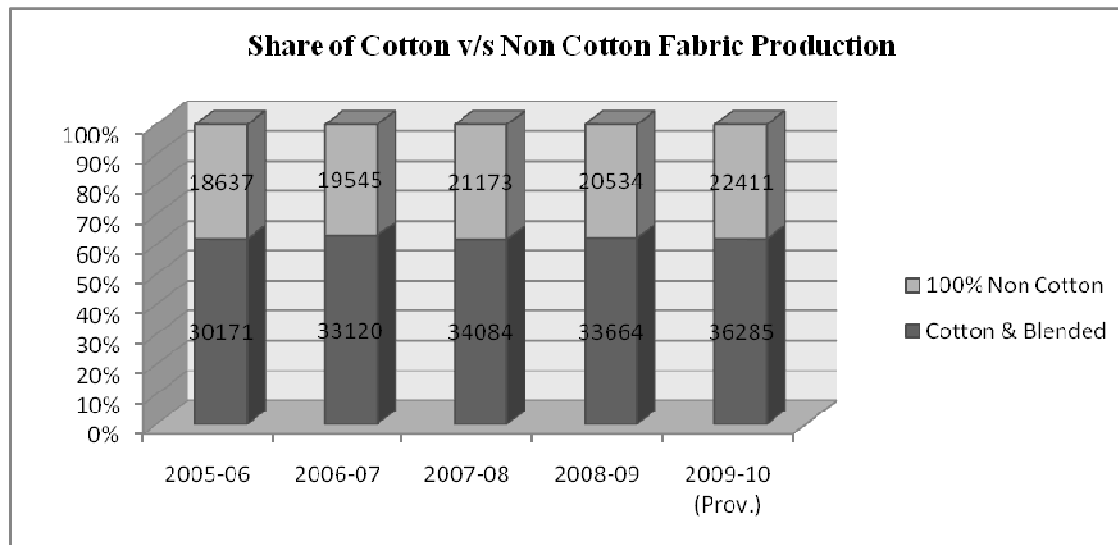
Type of Mills	2005-06	2006-07	2007-08	2008-09	2009-10 (Prov.)

¹ www.texprocil.com

² www.txcindia.com

Cotton & Blended	30171	33120	34084	33664	36285
100% Non Cotton	18637	19545	21173	20534	22411
Total	48808	52665	55257	54198	58696

Source: www.txcindia.com



Research Methodology:

The Indian textile industry has been chosen as universe for the present study. Method of simple random sampling has been adopted, for this purpose the universe is divided into two parts i.e. cotton blended mills and non-cotton mills. A sample size of 23 mills of each category has been taken. The financial period for the study is 2008-09. The hypothesis of the study is that, the cotton and blended mills are labor intensive and non cotton mills are capital intensive.

Data Analysis:

For testing the hypothesis the method of correlation has been used. Firstly a correlation between % of net profit and % of manufacturing expenses has been calculated and then a correlation between % of net profit and % of salary/wages expenses has been calculated.

Table 2
Financial Position of Cotton & Blended Mills

S.No	Textile Spinning -Cotton Blended	Sales	Net Profit	In % of Sales		
				Net Profit	MFG Exp	Salary &Wages
1	Alps Industires	991.73	-246.25	-24.83%	76.46	4.85
2	Ashima	208.2	-28.23	-13.56%	65.35	11.89
3	Bombay Rayon	1342.4	148.5	11.06%	70.36	9.12
4	DCM	213.86	6.08	2.84%	51.76	21.45
5	Ginni Filaments	393.68	-31.6	-8.03%	70.46	5.47
6	GTN Industries	199.09	-18.76	-9.42%	83.97	9.99
7	Malwa Cotton	458.86	-43.72	-9.53%	68.62	9.85
8	Maral Overseas	503.49	-41.87	-8.32%	66.9	9.28
9	Morarjee Textiles	203.92	-38.07	-18.67%	50.41	8.92
10	Nagreeka Exports	266.53	-1.76	-0.66%	78.07	2.61
11	Nitin Spinners	262.25	-14.11	-5.38%	69.47	3.99
12	Patspin India	205.33	-26.03	-12.68%	83	6.45
13	Precot Meridian	378.96	-8.71	-2.30%	58.5	9.29
14	SEL manufacturing	589.71	54.78	9.29%	89.74	1.99
15	Spentex Industries	661.82	-77.4	-11.70%	70.88	6.7
16	STL Global	322.1	-0.45	-0.14%	90.1	2.92
17	Super Spinning	366.45	-27.42	-7.48%	65.53	9.65
18	Supreme Textile Mart	310.45	-4.04	-1.30%	89.12	2.78
19	Suryajyoti Spinning	209.53	3	1.43%	73.13	5.4
20	Suryalakshmi Cotton Mill	355.39	-15.7	-4.42%	73.54	5.05
21	Sutlej Textiles	843.04	-30.15	-3.58%	63.96	8.7
22	Vardhman Polytex	428.29	-7.72	-1.80%	81.26	5.13
23	Vardhman Textile	2456.72	140.77	5.73%	60.79	6.23
Source: Business Standard Magazine, annual issue, Feb, 2010					0.15	-0.064

Interpretation:

As the correlation between net profit and manufacturing expenses is positive i.e. (0.15) this signifies that the cotton and blended mills are capital intensive, thus the hypothesis is rejected. It refers that if cotton and blended mills increase their manufacturing expenses in terms of superior quality of raw material or automation of plants then the mills would be able to generate more profit. Moreover the correlation between net profit and wage/salaries is negative i.e. (-0.064) this shows that the cotton and blended mills are not labor intensive thus capital intensive.

Table 3
Financial Position of Non-Cotton Mills

S.No.	Textile Spinning Non -Cotton	Sales	Net Profit	In % of Sales		
				Net Profit	MFG Exp	Salary &Wages
1	SPL Industries	339.78	-14.35	-4.22%	80.63	11.27
2	Nahar Industrial	999.92	1.11	0.11%	53.74	6.57
3	Arvee Denim	319.56	2.32	0.73%	71.42	4.35
4	Arvind	2344.82	-47.87	-2.04%	57.59	10.52
5	Nandan Exim	315.68	-1.4	-0.44%	62.13	3.75
6	Nahra Spinning	962.03	-16.63	-1.73%	58.39	7.35
7	TT	234.11	-36.29	-15.50%	88.46	3
8	Lakshmi Machine Works	1338.01	106.93	7.99%	64.92	8.27
9	Aditya Birla Nuvo	4754.22	137.43	2.89%	60.95	5.76
10	Century Enka	1164.72	16.62	1.43%	67.42	4.13
11	GSL Nova Petro	347.7	-15.16	-4.36%	67.62	1.61
12	JBF Industries	2394.29	76.27	3.19%	83.93	0.84
13	Sanghai Polyester	371.47	-45.54	-12.26%	78.4	3.5
14	SRF	1805.23	163.28	9.04%	52.41	4.79

15	Vardhman Acryli	240.8	4.23	1.76%	78.3	2.65
16	Indus Fila	294.56	-11.34	-3.85%	77.88	2.68
17	Raj Rayon	313.84	-10.55	-3.36%	83.64	1.52
18	Shri Lakshmi Cotsyn	845.24	46.58	5.51%	92.46	1.83
19	Banswara Syntex	550.72	9.59	1.74%	59.02	9.83
20	RSWM	1291.18	-63.85	-4.95%	63.55	8.47
21	Sangam India	748.27	-15.99	-2.14%	64.29	6.52
22	Indo Rama Synthetics	2462.3	-97.83	-3.97%	61.23	2.06
23	Eastern Silk	510.04	19.21	3.77%	113.6	1.41
Source: Business Standard Magazine, annual issue, Feb, 2010					-0.135	0.045

Interpretation:

As the correlation between net profit and wages/salary expenses is positive i.e. (0.045) this suggests that the non-cotton mills are labor intensive, thus hypothesis is rejected. It refers that if non-cotton mills increase their labor expenses to increase the production, by hiring more skilled, technically qualified personnels, then mills would be able to generate more profit. Moreover the correlation between net profit and manufacturing expenses is negative i.e. (-0.135) this shows that the non-cotton mills are not capital intensive. This shows that the superior quality of raw material and automatic machines are not major factors to contribute to the profits.

Conclusions:

As we know that labor and capital are two integral part of business. No business can get success without these two factors of production. However the importance of these two factors varies depending upon the type of industry or segment. The above study reveals that the cotton and blended mills are capital intensive while the non-cotton mills are labor intensive.

Suggestions:

The study suggests that the cotton blended mills should go for fine or superior quality of raw materials as the data shows the mills are getting good price if they are providing a good or

fine quality of products. Moreover these mills should adopt modern technologies, achieve the level of full automation if possible otherwise semi-automation must be achieved. On the other hand the non-cotton mills should go for the highly skilled laborers, as data shows the mills are getting good price for their product if the product is manufactured by technically sound laborers.

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