

Financial Analysis of Textile Sector in Bangladesh: A Study on Selected Textile Companies

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Abstract

The Textile sector of Bangladesh has got a greater facet than any other sector in terms of growth and foreign exchange earnings. It makes a significant contribution to the national economy by creating generous employment opportunities and reducing poverty through socioeconomic development. The paper focuses on the financial strength of the textile sector in Bangladesh. And to know that up to what extent textile sector has used their available resources effectively. For this purpose profitability, liquidity and solvency position of textile companies has been examined. In this paper comparative ratio analysis technique has been used to know the financial soundness of textile companies. The result shows the profitability margins is slightly different due to volatile textiles market and volatility in raw material prices. The Liquidity and solvency position is almost the same in all the textile companies.

Keywords: Textile Sector, profitability, liquidity, volatility and solvency.

Introduction:

Bangladesh is the southern Asian country has a population of approximately 164 million people and the Readymade garments (RMG) sector of Bangladesh has risen as the biggest earner of foreign currency. The readymade garments industry acts as the backbone of our economy and as a catalyst for the development of our country. This sector has been fetching billions of dollars as export earnings and creating jobs for millions of people in the country. The sector accounts for 82% of total export earnings of the country during the last financial year 2015-16.

Since the early days, different sources of impetus have contributed to the development and maturity of this industry at various stages. The MFA–quota was a blessing to our industry to take root, gradually develop and mature. While the quota was approaching to an end in 2004, it was predicted by many that the phase-out would incur a massive upset in our export. However the post –MFA era is another story of success. Proving all the predictions wrong, we conquered the post –MFA challenges. Now the apparel industry is Bangladesh's biggest earner with value of over \$ 28.09 bn of exports in the last financial year (from July 2015 to June 2016). Despite the epic growth of our RMG industry and its bright prospects challenges are still there.

The Garment Industry is the fastest growing industrial sector in Bangladesh. In order to create a more market economy the government has made considerable progress in stabilizing and liberalizing the economy and allowed foreign companies to invest in Bangladesh having 100% ownership of the factories in the RMG sector which are situated at different regions in the country. Bangladesh is trying to diversify both its exports and its markets. Textile as a whole is a heterogeneous product market where yarn, fabric, fashion, material quality, colors, brands etc. create values. Therefore, constant innovation and improvement is a prerequisite for increasing competitiveness.

Emerging Trends in Woven and Knit Trade of Bangladesh:

In RMG sector of Bangladesh, there are more than 5000 garment factories (private statistics) at the current time, employing more than 12 lack labors, where 85% of the labor force is women. But according to BGMEA the number of garments factories in Bangladesh is around 4000. Now RMG industry is the country's largest export earner with the value of over \$ 28094.16 (In Million) of exports in the last financial year. It's great news for us that, Bangladesh is clearly ahead from other South Asian suppliers in terms of capacity of the readymade garments industry.

Though various types of garments are manufactured in Bangladesh, all the readymade garments are classified into two broad categories' where one is woven products and another one is knitted products. A woven product includes Shirts, Pants and Trousers. On the other hand, knitted product includes T- Shirt, Polo Shirts, Undergarments, Socks and Sweaters. Woven garments still dominate the export earnings of the country. From BGMEA website it's seen that day by day knitted items production is increasing at a considerable rate and now about 47% of the total apparel export earning has been gained from knitted products.

**Table 1.1: Value of Total Apparel Export (Million Tk.)
 Fiscal Year Basis**

Year	Total Apparel Export in MN.US\$		
	WOVEN	KNIT	TOTAL
2010-2011	8432.40	9482.06	17914.46
2011-2012	9603.34	9486.39	19089.73
2012-2013	11039.85	10475.88	21515.73
2013-2014	12442.07	12049.81	24491.88
2014-2015	13064.61	12426.79	25491.40
2015-2016	14738.74	13355.42	28094.16

Source: Export Promotion Bureau Compiled by BGMEA, 2015-2016

Bangladesh is comparatively the best place for textile & garments industry due to cheap labor & favorable trade status. Bangladesh has earned nearly \$28094.16 million by exporting garment products, mainly to Europe and the United States. The RMG industry has around 4328 units across the country. It employs more than 4 million workers, most of whom are poor women. After the MFA/ATC phasing out, competition in the global textile and garment industries has increased manifold.

Review of Literature

Dr.Meenakshi Anand (2014) focused on the financial strength of the textile sector in India and tried to know that up to what extent textile sector has used their available resources effectively in the paper titled ‘A study of financial Analysis in Textile Sector’. For this purpose profitability, liquidity and solvency position of textile companies have been examined. Here comparative ratio analysis technique has been used to know the financial soundness of textile companies. Here they have found that the financial position of textile companies in India is sound and they are exploring their available resource and the solvency position is almost the same in all companies. The profitability margin is slightly different due to volatile textiles market and volatility in raw material prices.

Marimuthu, K.N. (2012) studied financial performance of textile industry of listed companies of Tamil Nadu and found better performance of companies out of 1376 companies in India under CMIE prowess. Here they found that the sampled five companies have good performance in the current and quick ratio except interest coverage ratio. The researchers emphasized that all these companies should concentrate on their liquidity position, receivables and payables particularly on working capital.

Ms.Priyanka Singh and Dr.Madan Lal (2013) focused on export performance and competitiveness of Indian Textile industry during the period of 2009-2011. Export competitiveness is calculated with the help of revealed comparative advantage of ten different commodities of textile like silk, cotton etc. and results show that some commodities are more competitive compared to other commodities. They state that still there is scope for Indian textile products in the world market and exports are increasing from US\$ 3.5 billion in 2004-2005 to USD 27.47 billion in 2010-11.

Hiralal R. Desrani (2013) states that India is the third largest producer of cotton and second largest producer of cotton yarns and textiles in the world is poised to play an increasingly important role in global cotton and textile markets as a result of domestic multilateral policy reform. Though the Indian Textile Industry was predominately unorganized industry even a few years back, but the scenario started changing after the economic liberalization of Indian economy in 1991. 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.

Varsha Gupta (2017) measured and compared the performance of selected textile companies in India during last five years. The secondary data collected was analyzed using various statistical tools and techniques such as ratio analysis and one way ANOVA, to measure the financial performance of selected textile companies, in term of managerial efficiency, liquidity, profitability and solvency position of companies. It found that there was significance difference in the return on capital employed, net profit margin, current ratio, debt to equity ratio and fixed asset turnover ratio of sample textile companies at 5% level of significance.

R.Subha And Dr.N.Ramu (2014) conducted a study analyzing the profitability of selected textile companies in Coimbatore such as Ambika cotton Mills Ltd, Bannari Amman Spinning Mills Ltd, Gangotri Textile Ltd., Lakshmi Mills Ltd. and KG Denim Ltd. As sample of the study, they collected data from annual reports of the selected companies for the period of ten years from 2003-04 to 2012-13. The study mainly used ratio analysis as statistical tool. The result of the study indicated that profitability of Ambika cotton Mills Ltd., Bannari Amman Spinning Mills Ltd. and KG Denim Ltd. was good over the study period where it was not satisfactory for Gangotri Textile Ltd. and Lakshmi Mills Ltd.

Asha Sharma And R.B. Sharma (2011) stated that Indian textile industry is an independent and self-reliant industry. It has large and potential domestic and international market. But the industry is highly fragmented industry depending on cotton. They tried to find a comparative study of financial performance of India’s leading

textile companies i.e. Arvind Mills, Raymond and Bombay Dyeing. Using ratio analyses, they found that the profitability decline, financial strength not highly satisfactory and working capital is not efficiently and effectively managed. Their study also shows that the Lack of technological development is the main cause of decline of this industry's growth and labor laws are not favorable.

Dr. S. Ayyappan, Dr. M. Sadika Sultana and M. Sakthivadivel (2014) found that the textile industry has an overwhelming influence in the economic development of India. Currently it contributes about 14 percent to industrial production, 4 percent to the GDP, more than 12 percent to the country. During the financial year 2012 the textile exports were expected to remain in the range of USD 28-30 billion. They state that the management should try to utilize their production capacity fully in order to reduce factory overheads and to utilize their fixed assets properly. In order to increase the financial efficiency of the selected textile mills the researchers suggested to control the cost of goods sold and the operating expenses.

Z. Bashir, S. Manzoor and M. N. Akram (2013) found out the determinants that are significantly affecting the firm's financial performance in textile sector of Pakistan for the period 2005-2010 and concluded that firm's performance is significantly affected by short term leverage, size, risk, tax and non-debt tax shield. The firm should use less short term debt as it neither provide tax shield advantage and not also cheap as long term debt financing.

Jahid Hasan (2013) researched that the phasing out of MFA and emergent of new competitors could not restrict the ongoing growth of Bangladesh RMG industry. Since 2005 the industry has contributed its positive growth and the export incomes from the industry are expected to be double in next five years. But the industry is also facing some internal problems such as poor infrastructure, lack of backward linkage, high lead time and market and product diversification.

Objective of the Study:

The objective of this study is to identify the financial position of the textile companies and the trend of Woven and Knit export of Bangladesh to the Globe. This paper is focused on analyzing the profitability, liquidity and solvency position of the selected textile companies and to know at what extent the selected textile companies has used their available resources effectively.

Hypothesis of the Study:

H₀-There is no significant difference in profitability, liquidity and solvency position of the selected textile companies.

H_a--There is significant difference in profitability, liquidity and solvency position of the selected textile companies.

Research Methodology

The paper focuses on examining profitability, liquidity and the solvency position of textile companies. The study is explanatory and empirical in nature. It is based on secondary sources of data. It covers the five years financial performance of the selected companies. Under this study, the researcher has applied comparative ratio analysis to know the financial strength of the textile companies. Here three textile companies of Bangladesh Apex Spinning and Knitting Mills Limited, Far East Knitting and dyeing industries Limited and Tung Hai Knitting and Dyeing Limited has chosen for analyses.

Financial Performance of the Textile Companies:

Apex Spinning & Knitting Mills Limited (ASKML): It is a 100% export oriented vertical Knitting, Dyeing & Finishing and Garment manufacturing Company. ASKML started commercial production in 1992 and is the first vertical knitwear production facility in Bangladesh. ASKML specializes in children-wear & infant-wear and the present production capacity is about 24 million pieces/year. ASKML uses a large variety of circular-knit and warp-knit fabrics produced exclusively by the company's fabrics department, from a wide range of fibers, with or without spandex and yarn dyed or solid dyed. The 52 sewing lines are equipped to produce garments starting from the basic. Form the last 24 years ASKML has been a regular supplier to some of the largest retail chain stores of Europe and North America, e.g., H&M, Sainsbury, Wal-Mart and Hanes Brand. ASKML has an enviable reputation as an international garment manufacturer based on a simple but unwavering philosophy of high quality products.

Table 1.2: Financial Performance in million Tk. (Apex Spinning & Knitting Mills Limited)

Particulars	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Revenue	2524.00	2,445.61	2511.70	2989.85	4319.34
PBDIT	97.69	113.55	102.02	90.771	113.59
PAT	16.82	18.49	18.80	23.20	28.77
Cash Profit	54.58	151.92	21.01	(15.075)	211.68
Paid Up Capital	84	84	84	84	84
Tangible Net Worth	412.54	414.29	417.91	420.18	434.06
TOL	635.93	767.30	718.35	954.093	1027.44

Source: Annual Reports of company, 2015-2016

The company achieved net sales of Tk 4319.34 million in FY 2015-16 registering a growth of 44.50% over sales of FY 2014-15. Net profit (after tax) earned during the period was Tk. 28.77 million as compared to last year's net profit (after tax) of Tk. 23.20 million. There is no significant difference from last year's net profit. The benefit of additional sales was absorbed by additional cost. The company has achieved an export turnover of Tk. 4,319.33 million during the fifteen months period ended in 30th June, 2016. Turnover of last year was Tk. 2,989.85 million. The increase in turnover is 44.47% over the last year and this is due to the fact that current year's reporting period is 15 months. Gross profit earned during the period was Tk. 338.62 million as against last year's gross profit of Tk. 243.14 million. The company's cash profit has increased gradually from FY2011-12 to FY2015-16 except the FY2014-15, where there was cash profit in negative figure due to decrease in collection turnover. Tangible net worth (TNW) of the company increased from 420.18 million Tk. in FY2014-15 to Tk 434.06 in FY2015-16 due to plough back of profits net of dividend.

Far East Knitting & Dyeing Industries Limited: This is a 100% export oriented organization and got the certificate of incorporation on 19th April, 1994. Far East Knitting has evolved from a small garments manufacturing plant into one of the leading composite textiles industry in the country, with integrated knitting, high end dyeing, finishing (tubular & open width), state of the art printing, pigment dyeing & garment washing. Operating out of a modern facility which is fully compliant (both technical & social) in accordance with all international standards, Far East Knitting today employs approximately 4000 workers and is a market standard in Bangladesh for the manufacture and export of high fashion garments. The factory specializes in high fashion knitted tops and offers a wide range of fabrics. The fabric base includes 100% Cotton, Viscose, Viscose/Lycra, Modal and Bamboo with weights ranging from 90 to 250 gsm. It also offers garments which are manufactured from organically grown cotton, i.e., without the use of harmful chemicals that damage the environment. Nature of business of the company is mentioned as Suppliers (Mfg), Importer & Exporter. Now it is performing business as readymade knit garments to export shirt, pant, jacket etc. to foreign buyers.

Table-1.3: Financial Performance (Far East Knitting & Dyeing Industries Limited)

Particulars	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Revenue	2358.80	2316.68	2678.22	2760.23	3139.46
PBDIT	608.41	455.57	363.52	565.97	658.18
PAT	399.51	231.66	241.87	314.66	294.01
Cash Profit	228.066	230.34	198.12	343.94	91.50
Paid Up Capital	650.22	910.31	910.31	1334.35	1467.79
Tangible Net Worth	1504.80	1736.46	1978.33	2909.97	3137.26
TOL	1187.57	938.005	5182.70	859.27	1156.30

Source: Annual Reports of the company, 2015-2016

Table 1.3 shows that the net sales grown up to 3139.46 million Tk. in FY 2015-16 over 2760.23 million Tk. in FY 2014-15 registering a growth of around 13.70%. The profit after tax has decreased in FY 2015-16 as compared to the FY 2014-15 due to increase of tax and dividend payments. Here it is found that the TNW of the company has gradually increased from the FY 2011-12 to FY 2015-16.

Far East Knitting and Dyeing industries limited has demonstrated a reasonable and financial performance in the year 2016. Despite the several disruptions in gas supply both sales volume and profit have increased to the previous year. However the profit growth was hurt due to the additional cost pressures. Here we found that the several challenges by way of political and industrial unrest as well as appreciation of the local currency both sales volume and selling prices have increased in the FY 2013-14 in comparison to previous year. The Board of Director has recommended a 10% stock Dividend for the shareholders for the year ended June 30, 2016.

Tung Hai Knitting & Dyeing Limited (THKDL): It was incorporated in Bangladesh as a private limited company on May 31, 2004 and has been converted in to a Public Limited Company on May 15, 2011 under the Companies Act, 1994. The Company started its commercial operation in May 13, 2005 with a dyeing capacity of 20,000 (Twenty Thousands) pound per day and knitting capacity of 12,000 (Twelve) thousands pieces per day. The company is 100% deemed exporter, mainly engaged in the business of Dyeing, Knitting and Bleaching of

Yarn for use in the export of sweater and export oriented garments. In May, 1994 Tung Hai Group have started its journey in the world of contemporary fashion. Now it is one of the largest and leading manufacturers and exporters of knitted sweaters and jerseys in Bangladesh and highly competent manufacturer with over 7,000 employees, three manufacturing facilities in separate locations in Bangladesh. Its annual turnover is USD 32 to 50 Million. It crossed the threshold of commercial production in 2011 and operates 16 jersey manufacturing lines created to extend services to the existing valued customers by supplying them with T-shirts, polo shirts, tank tops, fleece garments and a wide range of other fashionable knit garments for men, women & Children.

Table-1.4: Financial Performance in million Tk. (Tung Hai Knitting & Dyeing Limited)

Particulars	2011	2012	2013	2014	2015
Revenue	905.10	997.74	1015.45	1078.75	1099.87
PBDIT	177.59	200.31	201.13	222.03	231.47
PAT	45.67	51.77	65.78	88.30	104.88
Cash Profit	(34.48)	27.21	35.52	124.74	116.40
Paid Up Capital	451.3	451.3	451.3	881.43	969.57
Tangible Net Worth	567.09	619.47	689.10	1127.40	1227.70
TOL	741.28	695.90	785.57	719.72	609.61

Source: Annual Reports of company, 2015-2016

Despite significant economic challenges over the year the performance indicates that the company is on the right track in the year backed by the right strategies and having an able leadership to deliver consistent values for the shareholders. The company's sales turnover /export for the year 2015 is Tk 1099.87 million out of which after meeting up all costs including corporate income tax, the net profit for the year is Tk 104.88 million which is 9.54% of total sales revenue. As a result earning per share (EPS) has moved up to 1.23 .In consideration of that the board of director is pleased to recommend stock dividend of 10% for all shareholders. During the last financial year the textile sector went through the toughest time in recent era both domestically and internationally with the ongoing world recession still continuing and incessant political instability hindering the regular business affair. Yet the efficient and prudent management of process control has enabled the company to avoid financial catastrophe and earn substantial profit instead.

Data Interpretation:

In the present study for the financial analysis of textile industry different ratios are calculated to find out the profitability position of the company's profit before depreciation, interest and tax to sales (PBDIT) and profit after tax (PAT) to sales. For examining the ability to pay its outside obligations solvency ratios like total outside liabilities/total net worth (TOL/TNW) ratios of the companies are calculated. To know the liquidity position of the company's current ratio has been calculated. The comparative analyses of textile companies have been illustrated in table 1.5.

Profitability:

The Apex's profitability margins have decreased in FY 2015-16 as compared to the previous years. The PBDIT has decreased to Tk. 90.77 million in FY 2014-15, which was less than earlier periods. But in FY 2015-16 its PBDIT was turned to Tk 113.59 million. Margins have declined to 2.63% in FY 2015-16 which is less than previous years. The highest margin was 4.64% in FY 2012-13 .This reduction is due to increased in manufacturing expenses and input cost.

The profitability margin has also been impacted mainly due to volatile textile market and volatility in raw material prices. The PAT has gradually increased from the FY 2011-12 to FY2015-16 but the net

Table: 1.5: Comparative Financial Analysis in million Tk.

Years	2011-2012			2012-2013			2013-2014			2014-2015			2015-2016		
Particulars (Million Tk)	Apex	Far East	Tung Hai	Apex	Far East	Tung Hai	Apex	Far East	Tung Hai	Apex	Far East	Tung Hai	Apex	Far East	Tung Hai
Net sales	2,524.44	2,358.80	905.10	2,445.61	2,316.68	997.74	2,511.70	2,678.22	1,015.45	2,989.85	2,760.23	1,078.75	4,319.34	5,139.47	1,099.87
PBDIT	97.69	608.41	177.59	113.55	455.57	200.31	102.02	363.52	201.13	90.77	565.97	222.03	113.59	658.18	231.47
PAT	18.83	399.51	45.67	18.49	231.66	51.77	18.80	241.87	65.78	23.20	314.66	88.30	28.77	294.01	104.88
Profitability															
PBDIT (%)	3.87%	25.80%	19.62%	4.64%	19.66%	20.08%	4.10%	13.58%	19.81%	3.04%	20.50%	20.58%	2.63%	20.96%	21.01%
PAT (%)	0.67%	16.94%	5.05%	0.76%	10.00%	5.19%	0.75%	9.03%	6.48%	0.78%	11.40%	8.19%	0.67%	9.36%	9.54%
Solvency															
TNW	412.54	1,504.80	567.09	414.29	1,736.45	619.47	417.91	1,978.33	689.10	420.18	2,999.97	1,127.40	434.06	3,137.26	1,227.70
TOL/TNW	1.54	0.79	1.30	1.85	0.54	1.12	1.72	2.62	1.14	2.27	0.30	0.64	2.37	0.37	0.50
Interest coverage (%)	4.04	7.12	1.57	4.62	4.65	1.82	5.89	4.61	1.74	6.61	13.63	2.02	7.43	14.19	2.64
Liquidity															
Current Ratio (%)	1.18	1.92	1.17	1.12	2.42	1.31	1.17	1.12	1.41	1.13	2.79	2.24	1.16	2.70	2.55

profit margin has decreased to 0.67% in FY 2015-16, which is less than previous year. This reduction is due to the higher financial cost.

The Far East has recorded PBDIT of Tk 658.18 million in FY 2015-16 which is more than previous FY. Among the five years performance its PBDIT was lowest in FY 2013-14 which was Tk 363.52 million. The company's PBDIT margins was 20.96% in FY 2015-16 which was highest and 13.58% in FY 2013-14 which was lowest among these five years performance. During the FY 2015-16 the company registered net profit of Tk 294.01 million as against net profit of Tk 314.66 million in FY 2014-15 i.e. decline in PAT margin from 11.40% in FY 2014-15 to 9.36% in FY 2015-16. The decreased in profitability is mainly due to marginal increase in cost of raw material and direct labor and increase in financial cost. In the FY 2013-14 due to volatility in the market, whole textile sector was hit badly which squeezed the margins.

The PBDIT of Tung Hai for FY 2015-16 was Tk 231.47 million which is highest as compared to previous four FY years and it was 21.01% of net sales. The net profit for FY 2015-16 is Tk 104.88 million which was highest among these five years performance. The PAT margin of 9.54% was also highest in FY 2015-16. The increase in net profit is mainly on account of income from non operational activity of liquidation of its investments.

Solvency:

Net worth of Apex has increased over the years from 2011-2012 to 2015-2016. At the same time the gearing ratio also increased during these periods. This caused due to surplus profits added to the net worth.

The net worth of Far-East Company has increased to Tk 3,137.26 million in FY 2015-16 from Tk 1,504.80 million of FY 2011-12. But the gearing ratio has decreased over the years from FY 2011-12 to FY 2015-16, except the FY 2013-14 where the gearing ratio has increased to 2.62 due to surplus profit added to the net worth. The gearing ratio is high on account of various expansions cum modernization projects implemented by the company. But the benefits are likely to accrue in the coming years and with improved operations the scenario is expected to improve.

The tangible net worth of Tung Hai is at Tk 1,227.70 million in FY 2015-16 witnessing 116.49% growth as compared to FY 2011-12. The increase in net worth is on account of dilution of company's investments. The TOL/TNW as on FY 2015-16 is at 0.50 as compared to 1.30 in FY 2011-12.

Liquidity

The current ratio of Apex Company has marginally reduced from 1.18 in FY 2011-12 to 1.16 in FY 2015-16. The current ratio is low in FY 2015-16 due to lower raw material holding level. In view of fluctuations in the procurement prices of cotton, the company kept lower stock of these materials at the year end, resulting in decline in raw material holding level.

The current ratio of Far East Company has increased over the FY 2011-12 to FY 2015-16. Here the current ratio was on comfortable side. Except the FY 2013-14 when the current ratio was 1.12 which was less as

compared to others years. The current ratio of Tung Hai Company has gradually increased from FY 2011-12 to FY 2015-16. It was 1.17 in FY 2011-12 and 2.55 in FY 2015-16.

Conclusion

The RMG sector of Bangladesh is one of the fastest growing sectors in the Bangladeshi economy, from 2007 to 2016; average yearly growth was 12.84% which shows strong potentiality of the sector. Much of the tremendous growth of the sector and its role as an economic powerhouse for the country is attributed to the availability of cheap labor. This paper has explored the financial position of textile companies. The financial position of textile companies in Bangladesh is sound and they are exploring their available resources. The profitability margins has slightly different due to volatile textiles market and volatility in raw material prices. Moreover, the liquidity position of the companies is also sound, they maintained sufficient funds to meet their short term obligations and their total net worth is quiet enough to repay total outside liabilities of the companies, so solvency position is almost same in all the companies. The textile industry has traditionally remained a highly capital intensive industry and therefore general trend is of high gearing ratio. Through the comparative ratios analysis, it has found that the null hypothesis is accepted which shows that there is no significant difference in the profitability, liquidity and solvency position in the selected textile companies.

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