

A Study on Financial Performance of Selected Small and Medium Enterprises of Textile Industries in Tamilnadu

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Abstract: The present study aims to identify the financial performance of the small and medium enterprises of textile sector in Tamilnadu by properly establishing relationships between the items of the balance sheet and profit and loss account. The study covers small and medium enterprises of textile industries listed on BSE. The study has been undertaken for the period of ten years from 2011-12 to 2019-20 and the necessary data have been obtained from CMIE database. The liquidity position was strong in case of the selected textile industries thereby reflecting the ability of the enterprises to pay short-term obligations on due dates and they relied more on external funds in terms of long-term borrowings thereby providing a lower degree of protection to the creditors. Financial stability of selected SMEs has showed a downward trend and consequently the financial stability of selected textile industries has been decreasing at an intense rate. The study exclusively depends on the public limited listed companies and it's published financial data and it does not compare with private limited companies. This is a major limitation of the research. The study is of crucial importance to measure the selected textile industries' liquidity, solvency, profitability, stability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. The study will help investors to identify the nature of textile industry and will also help to take decision regarding investment.

Key words: Financial performance of SMEs, Selected Textile industry in Tamilnadu, ratio analysis, performance indicators, Public Limited Listed Companies.

Introduction

In India, MSMEs contribute nearly 29% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports. It won't be wrong to refer them as the 'Backbone of the country.' The Government of India has introduced MSME or Micro, Small, and Medium Enterprises in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities. MSMEs are an important sector for the Indian economy and have contributed immensely to the country's socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation's backward and rural areas. According to the annual report by the Government (2019-20), the number of MSMEs in India increased by CAGR of 18.5% from 2019-2020. MSMEs are a significant driver of growth in the Indian economy. The sector contributes towards the economic empowerment and social inclusion of the marginalized through employment generation. MSMEs, besides contributing to the balanced regional development, are in a unique position to become global players attracting partners with technology and funds. These enterprises impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self sufficiency.

Overview of MSME Sector

MSME Sector got defined subsequent to the enactment and implementation of Micro, Small, & Medium Enterprises Development Act, 2006 (MSMED Act, 2006). The Sector covers erstwhile Small Scale, Cottage & Village industries, traditional industries like Coir, Khadi & Silk, to include all non-Agricultural, including service-related activities with limiting conditions of size of MSME in terms of original value of plant and machinery / equipments. The Act resulted in, among other things, integrating the above referred heterogeneous segments of Non-Agricultural Sector of National economy. The definitional changes brought about by the MSMED Act, 2006, expanded the scope of the Sector beyond the earlier known ones such as Small-Scale Industries (SSI) and Small-Scale Service and Business Enterprises (SSSBE). SSI units were defined as industrial undertakings as defined in terms of the provisions of Industrial Development & Regulation Act, 1951 (ID&R Act, 1951). SSSBE were defined by executive orders.

The Ministry of Micro, Small and Medium Enterprises has issued a notification regarding the revision of definition of Micro, Small and Medium Enterprises (MSMEs) and process of registration. Apart from the old criteria of categorization of MSMEs on the basis of investment in Plant and Machinery/Equipment, an additional criterion of turnover has also been included. A proposal was made to redefine MSMEs by the Micro, Small and Medium Enterprises Development (Amendment) from 2020, to classify them as manufacturing or service-providing enterprises, based on their annual turnover.

Table 1: Composite Criteria (Investment in Plant & Machinery/equipment)

Kind of enterprise	Act of 2006		Effect from June 2020
	Manufacturing	Services	All enterprises
Micro	Up to Rs. 25 Lakhs	Up to Rs. 10 Lakhs	Investment < Rs 1 crore and turnover < Rs 5 crore
Small	Above Rs. 25 Lakhs & Up to Rs. 5 Crores.	Above Rs. 10 Lakhs & Up to Rs. 2 Crores	Investment < Rs 10 crore and turnover < Rs 50 crore
Medium	Above Rs. 5 Crores & Up to Rs.10 Crores.	Above Rs. 2 Crores & Up to Rs.5 Crores	Investment < Rs 50 crore and turnover < Rs 250 crore

Source: MSME Development Act, 2006 and MSME Revised Scheme June 2020

From the above table result of change in classification criteria, an enterprise is being classified as a Micro, Small or Medium enterprise on the basis of the following criteria, namely: Micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees. Small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Statement of Problem

The Study defines the problem such as very essential for undertaking research. In defiance of notable role of the nation's economy, SMEs in India are currently facing a lot of challenges and problems such as lack of capital for expansion and renovation in equipment and technology, low productivity and competitiveness, lack of experience in terms of SME provides wide prospects like Government subsidies, as it doesn't require huge capital, exclusive purchase by the government, raw material and machinery procurement, reservation for exclusive manufacture by small and medium enterprises, finance, subsidies, export promotion and manpower training. Irrespective of

financial and employment resources utilized by owner or manager, if the financial decisions are wrong, profitability of the emprises will be untimely affected. Consequently, SME profitability could be affected because of inefficient financial management. Among these problems, insufficiency of financial resources and lack of financial management is the most serious issues.

In this study concentrate that the SMEs unit in textile industry is one of the largest income sources in the area, only a few pieces of research explore the role of hand block production and made-ups under the umbrella of the textiles. Hence the researcher has undertaken the study to highlight the textile industries financial and profitable growth and currently facing difficulties for arranging required funds thereby carving a clear picture of entrepreneurial activities and emerging the economic development in India.

Objective of the study

- To analyze the liquidity position of the selected MSME units.
- To assess the long-term solvency position of the selected MSME units.
- To identify the profitability position and determinants of the profitability of selected MSME units in India.

Hypothesis

1. **Ho:** There is no significant difference in the mean liquidity ratio of the small and medium enterprises
2. **Ho:** There is no significant difference in the mean Solvency ratio of the small and medium enterprises
3. **Ho:** There is no significant difference in the mean Profitability ratio of the small and medium enterprises

Research methodology

The Present study is conducted with the help of Secondary data which is important source of obtaining knowledge related to the topic which helps to examine the financial impediments of selected textile manufacturing industry in tamilnadu. MSME refers to the information or facts already collected such data are based on the annual audited report, Balance sheet and Profit and Loss account official record of selected sample companies and also collected from the report of Comptroller and Auditor General of India, RBI Reports, Economic Survey of India and Centre for Monetary Indian Economy (CMIE), various websites of Government of tamilnadu published data, journals, annual reports and its websites etc.

There are 5749 companies listed under BSE and 1696 companies listed under NSE in India. 786 Companies have textile sector in the country including composite and process out of which 314 companies listed under textile manufacturing sector. Tamilnadu tops the list with a total of 26 textile manufacturing companies and selected companies for the study based on Investment of manufacturing small and Medium Companies and selected for the study 17 textile manufacturing companies under the category of 10 companies in Small Scale and 7 Companies in Medium Scale listed under BSE which are selected to considering following factors:

Table 2: Selected Sample Company for the Study

Sl. No	List of Small Enterprises	Invest Capital (in Corers)
1	Sri Lakshmi Saraswathi Textiles(Arni) Limited	3.33
2	Bharat Textiles & Proofing Industries Limited	5.86
3	Maris Spinners Limited	8.05
4	Lambodhara Textiles Limited	4.78
5	Salona Cotspin Limited	5.26
6	Super Spinning Mills Limited	5.50

7	Ambika Cotton Mills Limited	5.72
8	The Lakshmi Mills Company Limited	6.95
9	Sri Ramakrishna Mills (Coimbatore) Limited	7.12
10	Kandagiri Spinning Mills Limited	3.85
Sl. No	List of Medium Enterprises	Invest Capital (in Corers)
1	Tejassvi Aaharam Limited	21.79
2	Precot Limited	12.00
3	Shiva Taxyarn Limited	12.96
4	K G Denim Limited	25.63
5	K.P.R. Mill Limited	34.41
6	Gem Spinners India Limited	30.69
7	Sri Nachammai Cotton Mills Limited	19.29

Source: Listed Companies under BSE

Limitations of the Study

- The study used only essential aspects and variables of selected textile companies in MSME listed under BSE. This study is limited to seventeen textile manufacturing companies based on invest its capital limit which are the shape, a grouping of companies listed under BSE and the category of selected sample is Small and Medium Size Companies.
- The objectives of study such as survey are to decide on the efficiency or financial performance of selected textile companies and its administration as shown in budget records and reports.

Review of literature

Ashok and Matthau (2018)¹ contended that study of “Liquidity and Profitability Trade-off: A Study of selected textile Companies, in tamilnadu” and the association between liquidity and profitability of selected textile companies in tamilnadu. The objective of the study was mainly to know whether companies earn profit while maintaining the necessary liquidity or are they ready to sacrifice liquidity for the purpose of earning higher profit. The results indicate that among the selected textile companies, the techniques of Motaal's ultimate rank test have been applied to analyse the data. The researchers have used purely secondary data for the purposes of this study. In this study the association between liquidity and profitability of the sample companies by using Spearman's Rank Coefficient of correlation. The results found were the same with the theoretical views i.e. both are negatively correlated. But there are instances like Wal-Mart, which is able to generate profit and maximize shareholders' wealth with negative working capital, i.e. an example of foregoing liquidity for the purpose of maximizing profits.

Mathew (2019)² exhibited that the study on financial measurement and impact on the profitability of textile companies. The objective of the study was analyzed how size, solvency, liquidity, equity capital, and leverage impacted on the profitability of textile companies. The sample for the study was 74 companies in textile sector out of which selected 14 textile companies in India. In this study used multiple linear regression analysis to quantify the extent to which the specified indicators influenced the profitability of during the study period. The study was revealed that size and liquidity of textile companies positively influenced the firms' profitability whilst the reverse holds for equity capital and selected textile companies' leverage and solvency showed no interrelatedness with profitability. The Study concluded that the textiles companies under study were financial decline and on the other hand, current assets declined due to the negative profitability performance during the study period, so the current liabilities were on the increase because of poor liquidity performance of the textile companies.

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Data Analysis and Interpretation Liquidity Analysis

Liquidity analysis is a measure of determining a company's ability to satisfy short-term debt commitments. Liquidity ratios are used to calculate liquidity position, and the results demonstrate that short-term debt liabilities are compensated by cash and liquid assets.

Table 3: Liquidity Ratio (Industry Average) of the selected SMEs

Sl. No	Ratios	Mean	SD	CV	Max	Min	CAGR
1	Current Ratio	2.18	0.40	17.96	2.84	1.59	-0.71
2	Quick Ratio	1.33	0.56	44.55	2.48	0.75	2.81
3	Absolute Liquidity Ratio	2.15	0.71	37.37	3.25	1.16	-1.89

Source: Computed

The Liquidity Ratio's industry averages of the selected SMEs are shown in table 3 that the current ratio is ranged from 2.84 to 1.59 times, quick ratio is ordered from 2.48 to 0.75 times and absolute liquidity ratio is sorted from 3.25 to 1.16 times with the mean of the selected SMEs 2.18 times, 1.33 times and 2.15 times respectively. The Compound Annual Growth Rate is implies -0.71 times which depicts that current ratio is found negative growth, 2.81 times which determine that quick ratio is found positive growth, -1.89 times which depicts that absolute liquidity ratio is found negative growth of SMEs during the study period.

Table 4: Liquidity Ratio (Industry Average) between Small and Medium Enterprises

Sl. No	Ratios	Small Enterprises			Medium Enterprise			Overall SMEs		
		N	Mean	SD	N	Mean	SD	N	Mean	SD
1	Current Ratio	10	2.18	0.14	7	2.08	0.24	17	2.14	0.15
2	Quick Ratio	10	1.52	0.18	7	1.07	0.50	17	1.33	0.24
3	Absolute Liquidity Ratio	10	1.75	0.19	7	2.60	0.12	17	2.10	0.13

Source: Computed

Liquidity Ratio's Industry Average between Small and Medium Enterprises are stated in table 4. It is clear that the small enterprises have an average current ratio of 2.18 times, Quick Ratio 1.52 times and Absolute liquidity ratio 1.75 times and a standard deviation of 0.14 times, 0.18 times and 0.19 times respectively. The medium enterprises have an average current, quick and absolutes liquidity ratio of 2.08 times, 1.07 times, 2.60 times respectively and a standard deviation of 0.24 times, 0.50 time and 0.12 time respectively. The table also shows that the average current, quick and absolutes liquidity ratio for SMEs are 2.14 times, 1.33 times, 2.10 times and standard deviation for SMEs 0.15 times, 0.24 times and 0.13 times respectively.

A hypothesis test was applied to assess the mean score difference between small and medium enterprises, and the results are seen in the table below

Table 5: Mean Score Difference of SMEs (T – Test)

Sl. No	Ratios	Mean Difference	Standard Error	T-test	df	Table Value	Level of Significance	Remarks
1	Current Ratio	0.101	0.190	0.530	15	2.131	5%	Not Significant
2	Quick Ratio	0.452	0.345	1.310	15	2.131	5%	Not Significant
3	Absolute Liquidity Ratio	-0.855	0.166	-5.141	15	2.131	5%	Not Significant

Source: Computed

In order to test the hypothesis, stated that “There is no significant difference in the mean Current, quick and absolute liquidity ratio of the small and medium enterprises”. For this purpose, independent t-test has been applied and shown in the above table. The result inferred that the calculated value of ‘t’ is less than the table value of ‘t’ (t=2.131, df=15) at a 5% level of significance. Hence, the null hypothesis is accepted and the mean Current, quick and absolute liquidity ratio of small and medium enterprises is statistically not significant. It is inferred that the mean Current, quick and absolute liquidity ratio of small and medium enterprises does not vary significantly.

Solvency Ratio

Solvency ratios are a key component of the financial analysis which helps in determining whether a company has sufficient cash flow to manage the debt obligations. A solvency ratio is used to measure an enterprise’s ability to meet its long-term debt obligations and is used often by prospective business lenders.

Table 6: Solvency Ratio (Industry Average) of the selected SMEs

Sl. No	Ratios	Mean	SD	CV	Max	Min	CAGR
1	Debit Equity Ratio	10.75	2.50	24.34	14.21	6.60	-2.87
2	Total Debt to Total Assets Ratio	2.53	0.77	26.51	3.78	1.59	4.05
3	Fixed Assets to Net worth Ratio	3.93	2.84	63.79	9.36	1.31	-1.79
4	Proprietary Ratio	27.42	7.09	26.25	38.50	18.04	2.46
5	Interest Coverage Ratio	1.69	0.56	31.97	2.79	1.09	2.96

Source: Computed

The solvency ratio’s industry averages of the selected SMEs are shown in table 6. It showed that the average debt to equity ratio is 10.75 times, total debt total assets ratio is 2.53 times, fixed assets to net worth ratio is 3.93 times, proprietary ratio 27.42 times and interest coverage ratio 1.69 times with a standard deviation of 2.50, 0.77, 2.84, 7.09 and 0.56 respectively. The solvency ratio is ranged from 14.21 to 6.60 times (debt equity ratio), 3.78 to 1.59 times (total debt to total assets ratio), 9.36 to 1.31 times (fixed assets to net worth ratio), 38.50 to 18.04 times (proprietary ratio) and 2.79 to 1.09 times (interest coverage ratio) respectively. The CAGR rates are -2.87 times, -1.79 times which exhibit that debt to equity ratio and fixed assets ratio are found negative growth and 4.05 times, 2.46 times, 2.96 times which implied that total debt to total assets ratio, proprietary ratio and interest coverage ratio are found positive growth of SMEs during the study period.

Table 7: Solvency Ratio (Industry Average) between Small and Medium Enterprises

Sl. No	Ratios	Small Enterprises			Medium Enterprise			Overall SMEs		
		N	Mean	SD	N	Mean	SD	N	Mean	SD
1	Debit Equity Ratio	10	9.33	1.48	7	11.66	0.94	17	10.29	0.86
2	Total Debt to Total Assets Ratio	10	3.11	1.11	7	2.20	0.09	17	2.73	0.83
3	Fixed Assets to Net worth Ratio	10	3.95	1.18	7	3.65	1.46	17	3.83	0.79
4	Proprietary Ratio	10	28.69	1.98	7	27.19	2.77	17	28.07	1.89
5	Interest Coverage Ratio	10	1.62	0.21	7	1.83	0.32	17	1.70	0.25

Source: Computed

Solvency Ratio's Industry Average between Small and Medium Enterprises are stated in table 7. It is stated that the small and medium enterprises have an average debit equity ratio of 9.33 times and 11.66 times, total debt to total assets Ratio of 3.11 times and 2.20 times, fixed assets to net worth ratio of 3.95 time and 2.20 times, proprietary ratio of 28.69 times and 27.19-time, Interest coverage ratio of 1.62 times and 0.32 times respectively. The standard deviation of small enterprises are 1.48 times, 1.11 times, 1.18 times, 1.198 times and 0.21 times with respective ratios and the medium enterprises are 0.94 times, 0.09 times, 1.46 times, 2.77 times and 0.32 time with respective ratios. The table also shows that the average solvency ratios for SMEs are 10.29 times, 2.73 times, 3.83 times, 28.07 times, 1.70 times and standard deviation for SMEs 0.86 times, 0.83 times, 0.79 times, 1.88 times and 0.25 times with respective ratios.

Table 8: Mean Score Difference of SMEs (T – Test)

Sl. No	Ratios	Mean Difference	Standard Error	T-test	df	Table Value	Level of Significance	Remarks
1	Debit Equity Ratio	-2.329	1.289	-1.807	15	2.131	5%	Not Significant
2	Total Debt to Total Assets Ratio	0.914	0.859	1.064	15	2.131	5%	Not Significant
3	Fixed Assets to Net worth Ratio	0.295	1.298	0.227	15	2.131	5%	Not Significant
4	Proprietary Ratio	1.496	2.325	0.643	15	2.131	5%	Not Significant
5	Interest Coverage Ratio	-0.213	0.258	-0.827	15	2.131	5%	Not Significant

Source: Computed

In order to test the hypothesis, cleared that “There is no significant difference in the mean solvency ratio of the small and medium enterprises”. For this purpose, independent t-test has been applied and shown in the above table. The result inferred that the calculated value of ‘t’ is less than the table value of ‘t’ (t=2.131, df=15) at a 5% level of significance. Hence, the null hypothesis is accepted and the mean solvency ratio of small and medium enterprises is statistically not significant. It is inferred that the mean solvency ratio of small and medium enterprises does not vary significantly.

Profitability Ratio

Profitability ratios are used by company and investors to measure and evaluate the ability of a company to generate income (profit) relative to revenue, operating costs, and shareholders' equity during a specific period of time. In this Ratio is used by companies to provide useful insights into the financial well-being and performance of the business.

Table 9: Profitability Ratio (Industry Average) of the selected SMEs

Sl. No	Ratios	Mean	SD	CV	Max	Min	CAGR
1	Gross Profit Ratio	13.49	5.24	42.77	22.88	5.92	-0.09
2	Net Profit Ratio	8.24	2.47	40.01	12.08	4.92	0.39
3	Return on Total Assets Ratio	5.96	2.69	47.56	10.79	2.76	3.99
4	Return on Investment Ratio	16.63	5.05	32.67	23.86	8.96	0.55
5	Return on Capital Employed Ratio	7.13	3.00	44.55	12.11	2.87	3.37

Source: Computed

The profitability ratio's industry averages of the selected SMEs are shown in table9. It inferred that the average gross profit ratio is 13.49 percent, net profit ratio is 8.24 percent, return on total assets ratio is 5.96 percent, return on investment ratio 16.63 percent and return on capital employed ratio 1.69 percent with a standard deviation of 5.24, 2.47, 2.69, 5.05 and 3.00 percent respectively. The profitability ratio is ranged from 22.88 to 5.92 percent (gross profit ratio), 12.08 to 4.92 percent (net profit ratio), 10.79 to 2.76 percent (return on total assets ratio), 23.86 to 8.96 percent (return on investment ratio) and 12.11 to 12.11 percent (return on capital employed ratio) respectively. The CAGR rates are -0.09 percent which exhibit that gross profit ratio and is found negative growth and 0.39 percent, 3.99 percent, 0.55 percent and 3.37 percent which implied that the net profit, return on total assets, investment and capital employed ratio are found positive growth of SMEs during the study period.

Table 10: Profitability Ratio (Industry Average) between Small and Medium Enterprises

Sl. No	Ratios	Small Enterprises			Medium Enterprise			Overall SMEs		
		N	Mean	SD	N	Mean	SD	N	Mean	SD
1	Gross Profit Ratio	10	12.65	2.89	7	14.74	2.81	17	13.51	2.26
2	Net Profit Ratio	10	9.26	0.22	7	7.65	1.23	17	8.59	0.47
3	Return on Total Assets Ratio	10	6.04	0.87	7	6.64	1.55	17	6.29	1.02
4	Return on Investment Ratio	10	18.57	2.44	7	13.98	1.62	17	16.68	1.95
5	Return on Capital Employed Ratio	10	6.92	0.89	7	7.89	0.95	17	7.32	0.86

Source: Computed

Profitability Ratio's Industry Average between Small and Medium Enterprises are stated in table 10. It is showed that the small and medium enterprises have an average gross profit ratio of 12.65 percent and 14.74 percent, net profit ratio of 9.26 percent and 7.65 percent, return on total assets ratio of 6.04 percent and 6.64 percent, return on investment ratio of 18.57 percent and 13.98 percent, return on capital employed ratio of 6.92 percent and 7.89 percent respectively. The standard deviation of small enterprises are 2.89 percent, 0.22 percent, 0.87 percent, 2.44 percent and 0.89 percent with respective ratios and the medium enterprises are 2.81 percent, 1.23 percent, 1.55 percent, 1.62 percent and 0.95 percent with respective ratios. The table also shows that the average profitability ratios for SMEs are 13.81 percent, 8.59 percent, 6.29 percent, 16.68 percent,

7.32 percent and standard deviation for SMEs 2.26 percent, 0.47 percent, 1.02 percent, 1.95 percent, 0.86 percent with respective ratios.

Table 11: Mean Score Difference of SMEs (T – Test)

Sl. No	Ratios	Mean Difference	Standard Error	T-test	df	Table Value	Level of Significance	Remarks
1	Gross Profit Ratio	-2.092	2.858	-0.732	15	2.131	5%	Not Significant
2	Net Profit Ratio	1.611	0.795	2.027	15	2.131	5%	Not Significant
3	Return on Total Assets Ratio	-0.601	1.189	-0.505	15	2.131	5%	Not Significant
4	Return on Investment Ratio	4.598	2.152	2.136	15	2.131	5%	Significant
5	Return on Capital Employed Ratio	-0.975	0.915	-1.066	15	2.131	5%	Not Significant

Source: Computed

In order to test the hypothesis, implied that “There is no significant difference in the mean profitability ratio of the small and medium enterprises”. For this purpose, independent t-test has been applied and shown in the above table. The result inferred that the calculated value of ‘t’ is less than the table value of ‘t’ (t=2.131, df=15) at a 5% level of significance except return on investment ratio. Hence, the null hypothesis is accepted and the mean profitability ratio of small and medium enterprises is statistically not significant and the null hypothesis is rejected in return-on-investment ratio due to the ‘t’ value is more than table value at a 5% level and it is statistically significant. It is inferred that the mean solvency ratio of small and medium enterprises does not vary significantly and the mean return on investment ratio of small and medium enterprises does significantly.

Findings

- In Liquidity ratio found that the manufacturing sector of SMEs, all units display the SMEs have sound liquidity position in short term during the study period. There was fluctuating trend in the current ratio, quick ratio and absolute liquidity ratio, over the study period. The compound annual growth rate of quick ratio is positive growth during the study period. It is implied that the current liabilities are equal to the liquid liabilities as there were no overdrafts during the study period. The mean Current, quick and absolute liquidity ratio of small and medium enterprises is statistically not significant. It is inferred that the mean Current, quick and absolute liquidity ratio of small and medium enterprises does not vary significantly.
- In solvency ratio determined that the positive growth rate of total debt to total assets ratio and it is fluctuating trend during the study period followed that proprietary ratio and interest coverage ratio are also positive growth rate of SMEs during the study period. The mean value of small and medium enterprises is highly fluctuating trend and it is ability to meet its long-term financial obligations. The mean solvency ratio of small and medium enterprises is statistically not significant. It is inferred that the mean solvency ratio of small and medium enterprises does not vary significantly.

- The profitability ratio's industry averages of the selected SMEs are 13.49 percent in gross profit and net profit of 8.24 percent during the study period. The mean value of profitability ratio has recorded a high fluctuating trend among the selected units. The profitability measure i.e., the return on capital employed indicates that industry average has been fluctuating trend during the period of the study. This ratio measures the profitability of the capital invested in the business by equity shareholders. As the business is conducted with a view to earn profit, return on equity capital measures the business success and managerial efficiency.

Suggestions

The SMEs of selected Textile units 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 units, it is suggested to control the cost of goods sold and the operating expenses. The management should try to adopt cost reduction techniques in their textile units to get over this critical situation. The selected textile units are the capital intensive in nature but the policy of purchase of fixed assets should be carefully planned and reviewed so that the funds may be properly utilized. For regular supply of raw materials and the final product infrastructure facilities require further improvement

Conclusion

From the analysis of financial performance, new evidence emerged of the role of finance and their liquidity, solvency and profitability. The results implied that a lack of finance and a weak business environment trend to limit the growth of SMEs. As such, the use of measures to assess the effects of finance on SME growth is only significant for medium-sized enterprises due to the downward trend. The analysis of financial performance was carried out by analyzing their liquidity, solvency and profitability position. The Indian textile industry financial performance shows that there is significant change in all these areas of financial performance. Regulatory environment and infrastructure measures suggest that SMEs benefit from informality, less regulation and less infrastructure development, which can help divert some economic activities towards SMEs. SMEs functions enable easier adaptation to changes imposed by the knowledge-based economy, particularly economic sectors based on art techniques and technologies. Permanent renewal is the key to success. The greater flexibility of SMEs, the entrepreneur's constant contact with the organization, the ability to produce goods and services to meet different needs and requirements, the organizational environment favourable to change and innovations are the elements that make the SME perform better -Sector explain.

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