Financial status of medium enterprises: a study of the Textile Sector of Pakistan

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Abstract

The textile sector of a country plays a significant role and cannot negate the part of the export and economic development of a country. the sector not only under consideration of the developed economies across the globe like, China, USA, Turkey but also the developing countries such as, India, Bangladesh, South Africa and many other across the globe. The role of textile sector is not different from the rest of the developing countries of the World, and it plays and contributes a major portion in the export of the country. The study used the financial analysis of the textile sector of the country and for the sampling purpose the province Khyber Pakhtunkhwa selected and textile companies of the province is used. The data analyzed through different ratios of the selected firms from the regions and about 34 companies operating in the province selected which contributed 25 % of textile industry. It is observed that the textile sector of the country has play major contribution in export and the economy of the country as compared to financial year 2017. In addition, it also clearly mentioned that the sector has a great potential for the investments and the investors are encourage for the investment as the promising result of the sector have seen in last year’s. The government and state bank of Pakistan role cannot be negated in this regard. It recommended that to formulate policies and strategies for the attraction of the foreign investors. The study is limit to only the textile sector of the country and not focused other sectors of the country.

Keywords: Economic development, Textile sector, State Bank of Pakistan, Financial performance

Introduction

It is a "startup" industry specific to countries engaged in export-oriented industrialization and it is labor intensive (Gereffi, 2002). The industry offers a number of opportunities for skilled labor in developing countries, including entry-level jobs. The technical characteristics of the industry make it a first step on 'scale of industrialization' in poorer countries, some of which have experienced high growth rates in products such as Bangladesh, Sri Lanka , Vietnam and Mauritius, and have since become middle-income countries (Vietnam, Mauritius). Group and manufactured goods they do not enjoy any other kind of food. Developing countries great net export position. In the last two years, all regions of the world have experienced double growth in the manufacturing sector. The major exporters of textile are the Europe Union 25, USA and other counties and represented from textile exports.

Turkey's textile industry offers an advantage to the competitive power of the national economy. Specifically, clothing production exceeds both total industrial production and textile production. Therefore, the textile and garment industry is one of the most important sectors of the Turkish economy in terms of GDP, employment and exports. This sector's participation in the country's GDP is approx. 10.7% and 10.9% of total employment. There are about 40 40,000 manufacturing companies and 1.9 million employees in the sector. Turkey's textile and clothing exports reached US $ 20 billion in 2006 (Cukul, 2008). Textile sector is Pakistan's largest industry. It comprises of 164 firms, including 145 firms related to spinning, weaving and termination, while 6 firms are made up of readymade of textile and the remaining 13 are related to other textile materials (Abbas et al., 2013).

Objectives of the study

The textile sector covers 40% of the non-financial industry in Pakistan. The purpose of the researcher is to look for factors that determine the performance of the company in the textile sector of the Pakistani people so as to build financial performance and the researchers aim to explore the various financial factors that have significantly affected the company's performance in the Pakistani textile sector during 2017 -18. It explore financial position of the industry for potential investors to invest and do not hesitate in making investment in this sector, as it has grown and financial sound and very good return.

The paper is arranged in this manner, i.e. section 2 consists of literature review followed by methodology in section 3, results in section 4, conclusion in section 5, limitation in section 6 followed by references list at the end of the paper.

Literature Review

Today, the most important factor that enhances a country's competitive strength is the success of its companies in international markets, where competition is increasingly difficult and complex. In simple terms, the performance of companies in national and international markets clearly indicates the level of development of this country. Both the developing and developed countries across the globe are playing their role promotion and development of the textile industry in their respective countries. The Chinese economy has grown dramatically and in the past two decades it has become a major highlight of the global economy. In 2006, its economy expanded by 13.6 percent, three times faster than the global economy. At this rate, China could overtake Germany in 2008 and become the world's third largest economic power. China's textile industry increased by more than 15 percent each year in 2007 in terms of production costs, profits and exports. Chinese textile companies recorded a cumulative production value of approximately 2. 2.46 trillion Yuan (US $ 307.7 billion) in 2006 (Çukul, 2008).

The textile sector in the Turkey also has promising results which has grown tremendously since 1980, when Turkey implemented liberal economic policies that opened it up to foreign markets. Its export potential has grown from about US $ 1 billion to US $ 19-20 billion, and has become a hotbed of national growth. Today, Turkey is the ninth largest textile manufacturer in the world, and the fifth largest producer of clothing. To maintain this position and further improvement the government being developed strategies to improve and strives the quality of product and maintain this position (Atilgan, 2006). Another study indicates that Turkey government formulates and implements the strategies and policies for the maximum output of the textile sector in the country and increases their export across the globe. Information about the textile companies was obtained through a questionnaire survey. The strategies and the key factors effective for implementing these strategies, considered to compete in the global environment. The study shows that government formulates promising strategies and policies for the industry and also followed the international strategies for the maximum output and competes in the globe in the domain (Eryuruk et al., 2010).

In South African; textile companies' response to rapid commercial liberalization in the country since the early 1990s a study shows that exports have increased with declining employment and contraction in the production of yarn and fabric. Based on business surveys, which are followed by interviews, they document how competitive pressures help companies increase their exports. However, exporting is not directly linked to better performance. This is because many companies respond to weak internal demand and the need to maintain production capacity. But with the liberalization there has been an improvement in equipment improvements and vertical specialization and segmentation, despite South Africa's manufacturing wage levels being higher than many of its international competitors. Firms focusing on factors unrelated to export competitiveness performed better. Businesses have also been more successful where domestic market-based technical capabilities have provided a basis for export competitiveness. There are indications that with the liberalization-driven restructuring, the sector is in a more efficient position to exploit its competitive powers in international markets. In addition, the United States African Growth and Opportunity Act (AGOA) give the textile industry some incentive to distribute clothing to companies that previously imported them into the garment export sector (Roberts, 2003). Over the past few years, the competitiveness of the textile sector has increased, which has put a lot of pressure on financial profitability. As a result, production has shifted to lower-wage countries in the third world. This has increased the relevance of the ethical procedure (Graafland. 2002).

Kabir and Mahmood (2004) argue that the industry has contributed and receive in the garment industry is far greater than the alternatives available for employment. In general, high-income countries enjoy a strong position in international trade in high-tech products, while low- and middle-income countries hold strong positions in low-tech and overall textiles. Although, the United States has maintained a consistent advantage in high-tech products with partners from all groups, it has a comparative disadvantage in low-tech products and overall textiles. There was no statistically significant difference in the competitiveness. The change is not in the groups of US countries or in the competitiveness of the United States. Findings support the idea that the United States is a leader in the latest technological and industrial textile products. However, maintaining this position will be strongly influenced by international competition and the strategy of US companies, which may choose to move some operations overseas (Chi et al.,2005).

In terms of industrial production and employment, the agricultural sector as well as the textile and clothing sector is one of India's leading economic sectors, providing employment to more than 30 million people. It show that the products for which India achieved comparative advantage increased from 23 products between 1995 and 2003 to 25 products and for Bangladesh, the number increased from 21 products between 1995 and 2003 to 29. Clothing exports to India and Bangladesh have been graded according to the comparative advantage for the years 1995 and 2003 and the competitive position is given on the basis of structural change in exports from India and Bangladesh; Highlighting the products that have a comparative advantage in the export of textiles to India and Bangladesh (Mohan, 2013).

Like the other developing countries across the globe, Pakistan also play their due role for the uplifting the industries and export of the country. The textile sector is the largest sector of Pakistan's economy, which accounts for the largest share of domestic exports, but the actual financing of this industry depends on bank loans. Heavy machinery requires a large amount of investment in the textile sector to buy or rent in cash and they need net working capital to cover daily expenses and for everything they have to borrow from the interest-paying bank, which increases the general value of the sector. Although, Pakistan's textile sector has been supported by the government with the greatest interest as they have set up various investment policies and funds for the textile sector, but other factors are less than needed to improve (Shah, 2007). Textile sector performance is strongly influenced by the cost of the textile sector and efficient management of networking capital. Pakistan is a developing country, where most of the industrial resources as well as textile sector are lacking. It has to import most of the technical machinery used in the textile sector from other developed countries, which increases the overall cost of the sector, as well as reducing working capital, increasing fuel prices, electricity (Chhapra et al., 2010).

Methodology

The ratio is taken as a guideline that is useful in assessing the financial status of a critical situation and comparing it with the results of main they identify areas that need relationships i.e. Balance Sheet, Profit and Loss Account, Statement of Changes in Equity, and Cash Flow Statement.

Sampling

Cluster sampling technique is adopted in this study, as the textile companies spread all over the country. And due to time limitation to study all the companies in details, that’s why cluster sampling is the best way to choose the companies in one cluster and the result, is generalized across the whole population. Almost the companies and their nature of operations are similar to each other, therefore, the cluster sampling used for sampling purpose in the study. There are 134 companies working in the textile sector of the country (list display in appendix section), the Khyber Pakhtunkhwa represents 34 companies in the sector across the country.

Data and source

The type of data is panel and drawn from the annual publication of the SBP "Analysis of Financial Statements of Non-Financial Companies Listed in the 2018 Stock Exchange for the 2017-2018". This statement includes 6-year financial data for 12 different sectors related to the non-financial industry, with a total of 411 companies and is available online at www.sbp.org.pk , while the researcher chose the textile sector because it covers most of the parts. In our analysis, the companies involved in the textile sector were divided into three categories. In the first category, companies operating in the textile spinning, knitting and finishing group were taken i

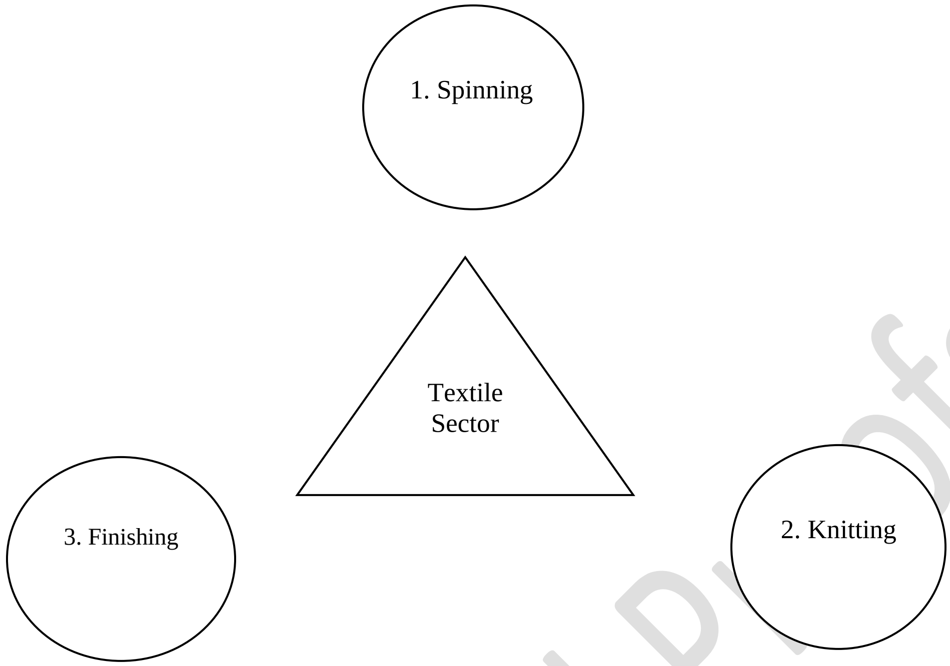

Fig.1. Ingredients of Textile sector

Result

Performance Summary

With the textile sector contributing 87.63% the second category was textile manufacturing companies, and it contributed 4.89% to the textile sector. The third category was companies for the manufacture of wool, silk, polyester, synthetic fiber and synthetic articles, etc. And it is named after the second textile, whose contribution to the textile sector in fiscal 2018 was close to 7.48%.

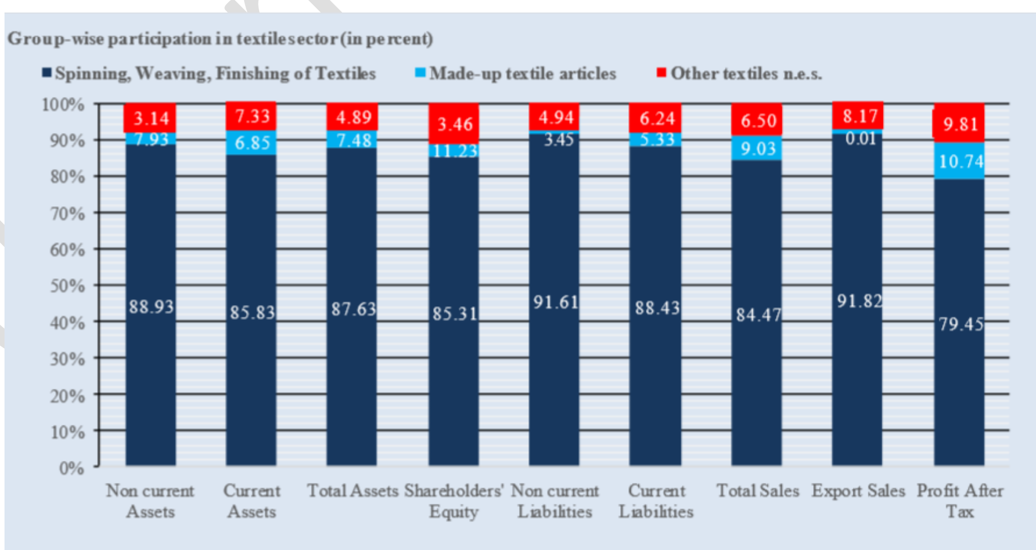

Fig.2. Performance Summary {Source: State Bank of Pakistan (2017-18)}

The overall size of the textile sector has increased by Rs 56.92 billion, which is an increase of 6.53 percent year-on-year in Financial Year (FY) 2018, which has increased from Rs. 871 in FY 2018 to Rs. 928.28 billion, 36 billion in FY 2017. Shareholders' equity also increased 1.96% over last year, up from Rs. 3 billion 8370 billion this year. The cumulative liabilities in fiscal liabilities increased by Rs 49.53 billion, or 10.01%, to Rs 544.58 billion by collecting their balance in FY18. Sales in this sector increased by 15.43% in FY 2018 and it stood at Rs. 99.50 billion more than last year's total sales. It should be noted that export sales from the textile sector are the backbone of Pakistan's economy as it contributes 68.14% of the total export revenue of all non-financial companies listed in Pakistan Stock Exchange (PSX) for FY 2018. During FY18, local sales accounted for 49.86% share and export sales contributed 50.14%, with annual growth of 13.42% and 17.42%, respectively FY18 compared to FY17. Sales cost in the financial year 2018 was Rs 80.57 billion or 13.70%, and as a result, gross profit increased by 33.18% in FY 2018. Profit before the tax sector also increased by 11.32% in FY 2018, which is Rs 2.92 billion more than the previous year. Similarly, tax revenue increased to Rs 22.19 billion after FY 2018 compared to Rs 21.20 billion in FY 2017, an increase of 4.67% over the previous year. It should be noted that due to the revision in the form of financial statements in accordance with the Securities Exchange Commission of Pakistan (SECP) Companies Law of 2017, the data of some companies were revised and information about some companies also in this publication have been added.

Analysis of Asset

The noncurrent assets of the sector were Rs 540.51 billion in FY 2018 as compared to Rs 530.00 billion in FY 2017, which reflects a 1.98% increase in FY18. Operating fixed assets increased by 8.46 percent year-on-year in 2018, after deductions that made up 74.51 percent of non-current assets in FY18. Real estate increased by 0.54 billion to touch Rs 0.75 billion in FY 2018. Long-term investment has decreased by 11.31 billion or 8.54 percent and investor work has decreased by 10 billion 77 million or 45.97 percent during the current year. Last year, however, other non-current assets increased by Rs 0.65 trillion or 24.94%, compared to Rs 3.27 trillion in FY18.

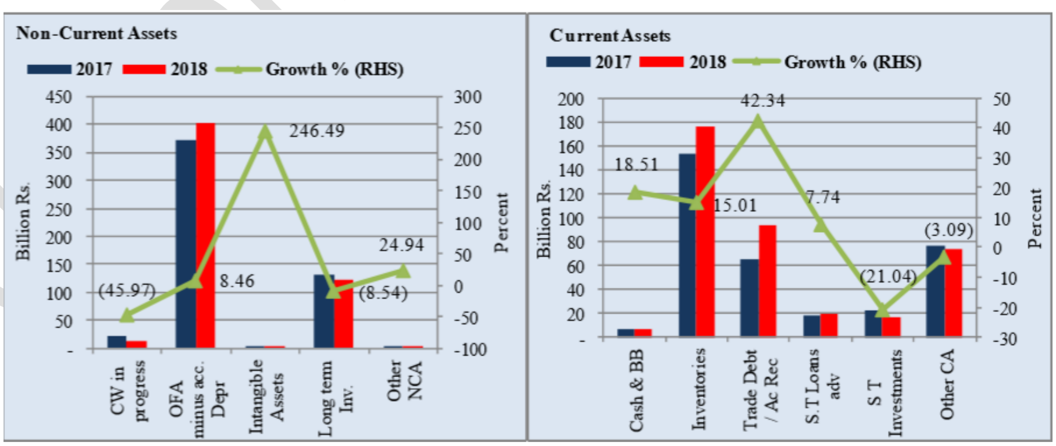

Fig.3. Assets Analysis {Source: State Bank of Pakistan (2017-18)}

The current assets increased by 46.41 billion (13.60%) in FY 2018 compared to FY 2017. In FY 2018, the inventory holding 44.50% of the current assets, which has increased from Rs. 153.41 billion this year to Rs. 176.43 billion this year. Raw material was an important part of inventory, which increased its participation in total inventories in FY18 to 63.28%, from 56.29% in FY07 and increased to a regular growth of 29.30% in FY17. Short-term loans and advances increased by 7.74 percent in FY 2018, up from Rs 18.11 billion in FY 2017, to Rs 19.51 billion in FY 2018. Debt business, which holds 24.09% of the current assets in FY18, increased by 42.34% in FY18 and in FY 2018, the financial increased from Rs. 65.44 billion in 2017 to Rs. 93.42 billion, which is a bad indicator for the sector.

4.3 Analysis of Share holder's Equity

Equity analysis of liabilities and shareholders' equity for this year stood at Rs 383.70 billion from Rs 376.31 billion in the previous year. Capital payments increased by 1.28 billion rupees or 2.12% in FY 2018 compared to FY 2017, of which 98.23% were common shares. Financial reserves, including capital reserves, secured income and 60.53% of shareholders' equity in FY18, reflect a decrease of 1.09% in FY 2018 compared to fiscal year 2017. Due to the decline in the textile sector reserves, capital reserves decreased by 16.91 billion or 17.53 percent, which has declined to Rs 79.55 billion in FY 2018.

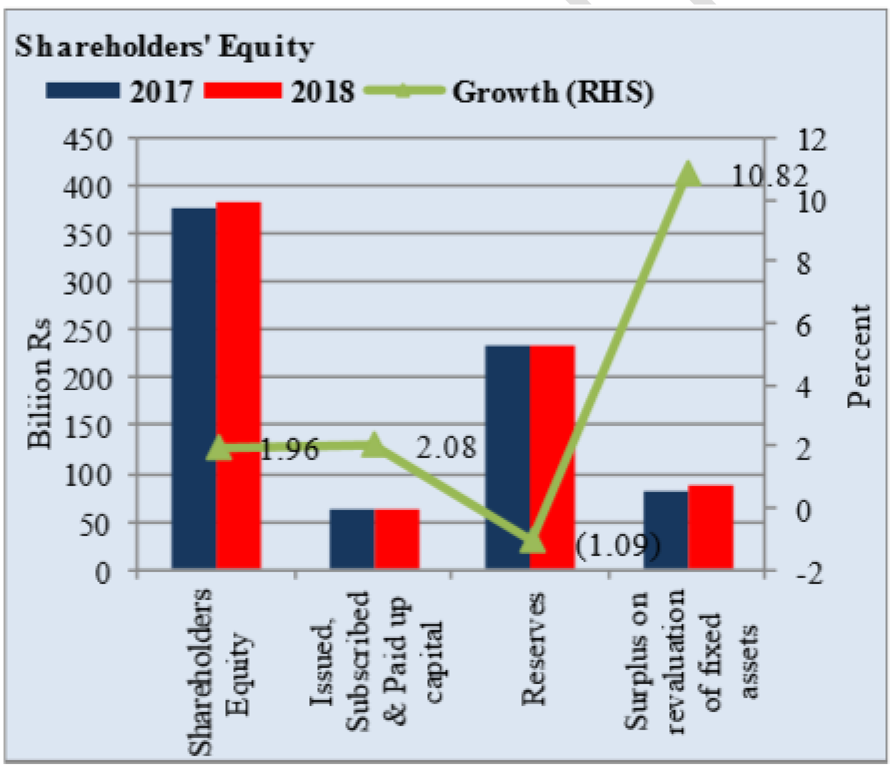

Fig.4. Equity Analysis {Source: State Bank of Pakistan (2017-18)}

In fiscal year 2017, the revenue reserves, which account for 65.75% of the total reserves, recorded an increase of Rs 14.36 billion or 10.36% during FY18. Fixed asset recovery saw an increase of 23.13% of total gross equity, an increase of Rs 88.76 billion or 10.82% year-on-year in FY18.

4.4 Analysis of Liabilities

Non-current liabilities increased 2.55 percent year-on-year to Rs 143.52 billion this year compared to Rs 139.95 billion last year. Long-term debt, which accounts for 76.29% of non-current liabilities in fiscal 2018, increased by Rs 2.59 billion or 2.43% year-on-year. Employees' worth in FY 2018 was around Rs 8.22 billion, which is 0.77 billion or 10.40 percent more than last year. Subordinated loans or sponsorship loans improved to Rs 5.41 billion in FY2018 compared to Rs 5.32 billion in FY 2017, which is 1.68% increase in FY18, however, the decrease in liabilities, Term Finance Certificates (TFCs) in FY17 was 0.39. In the national financial year, it fell to Rs 0.15 billion, down from Rs billion, reflecting a decrease of 0.24 billion rupees or 62.68% during the one year in FY18.

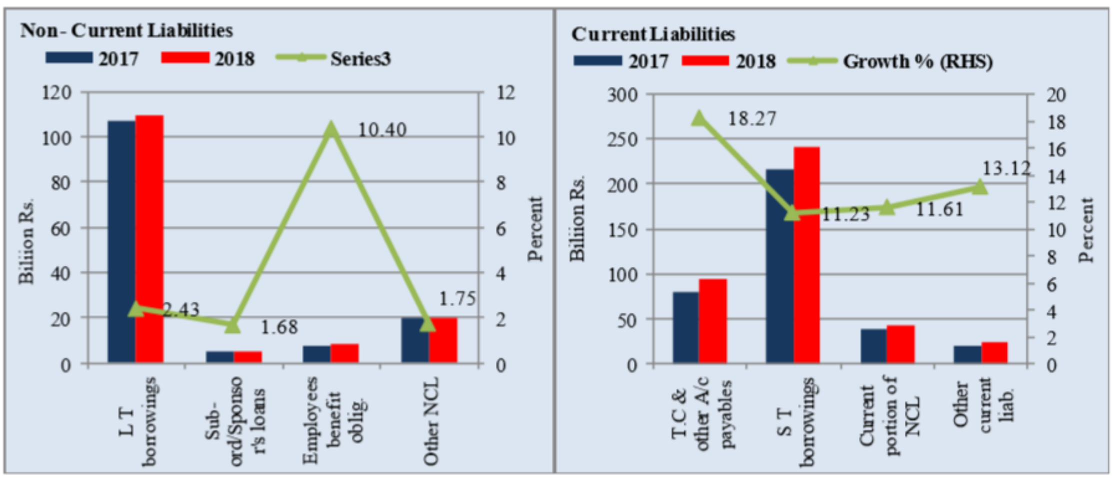

Fig.5. Liabilities Analysis {Source: State Bank of Pakistan (2017-18)}

The current liabilities increased from Rs 355.09 billion in FY-17 to Rs. 401.07 billion in FY18, which is 12.95% year-on-year. Payment of business loans and other accounts is 23.31% of total current liabilities as compared to FY 2017, which is an increase of Rs. 14.44 billion or 18.27% over FY17. Short-term loans increased from Rs 216.57 billion in FY17 to Rs. 240.89 billion in FY-18, which is a significant part of current liabilities of 60.99% and FY17 and 60.06% in FY18 respectively. The current share of non-current liabilities has increased by 11.61% in FY 2018, which is 10.84% of total current liabilities in FY 2018.

4.5 Analysis of Operational Efficiency

The textile sector sales have improved significantly in FY-2018, and saw an increase of Rs. 99.50 billion or 15.43%. Total sales growth in the textile sector increased from Rs 645.04 billion in fiscal year 2017 to Rs 744.53 billion in fiscal year 2017, of which 84.47% of total sales made up the textile sector in FY 2018 and the ending was related to the category. The share of export sales in general sales increased more than local sales, and in FY 2017, the share increased from 50.14% to 51.01% in FY18. In addition, export sales also showed a significant increase of Rs 56.34 billion in FY 2018, which is 17.42% higher than FY 2017.

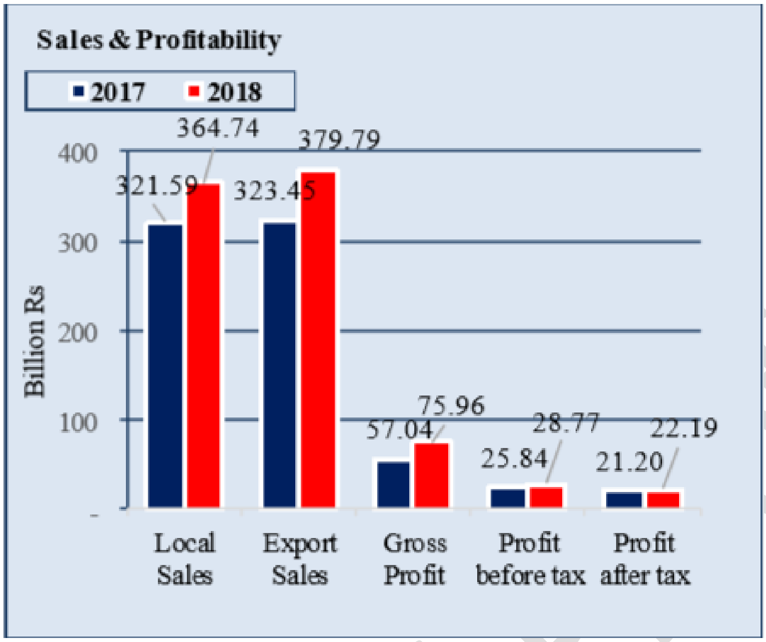

Fig. 6. Sales and Profitability Analysis {Source: State Bank of Pakistan (2017-18)}

The cost of sales during the current year also increased by Rs 80.57 billion or 13.70% as compared to the previous year, and the cost of material, which accounts for 65.81% of the total cost of sales in FY18, increased by 15.19% in FY 2018. Gross income for the sector increased from Rs 57.04 billion to Rs 75.96 billion in fiscal year 2017 and its annual growth has increased by 33.18 percent during the current year. General, administrative and other expenditures increased by 19.00 percent in FY 2018, reaching Rs 45.94 billion this year. However, the second revenue decline in FY 2018 was less than Rs 5.05 billion or 19.71% this year compared to the previous year. This shows that (Earnings Before Interest and Taxes) EBIT (pre-interest and tax revenue) increased to Rs 50.58 billion in FY 2018 which was Rs 44.00 billion in FY 2017, up 14.86% from EBIT in FY 2017. In fiscal year 2018, expenditure increased by 19.89% or Rs 3.62 billion more than in FY 2017. The pre-tax income increased to Rs 28.77 billion in FY18, from Rs. 25.84 billion in FY17. Tax expenditures also increased by 41.69% in FY 2018 and this prevents tax revenue from stopping their growth, increasing by 0.99 billion or 4.67% in FY18. 21.20 billion, which is 22.19 billion in FY-2018, and cash profit during fiscal 20118, is 46.16% of income after tax.

Analysis of Financial Ratios

Significant performance indicators of this sector have seen mixed patterns of growth and fall in FY18 compared to FY17 in the current fiscal year. Profit on assets decreased from 2.55 in fiscal 2017 to 2.47 in fiscal 2018, while profit on equity increased from 5.81 in fiscal 2017 to 5.84 in fiscal year 2018. The basic earnings per share increased from 3.43 in FY17 to 3.52 in FY18. Net profit margin decreased from 3.29 in FY 2017 to 2.98 in FY 2018. However, the asset turnover increased to 0.83 in FY17, which was 0.77 in FY-18, and the financial leverage ratio in this sector changed from 2.37, 2.28 in FY18 as compared to FY17.

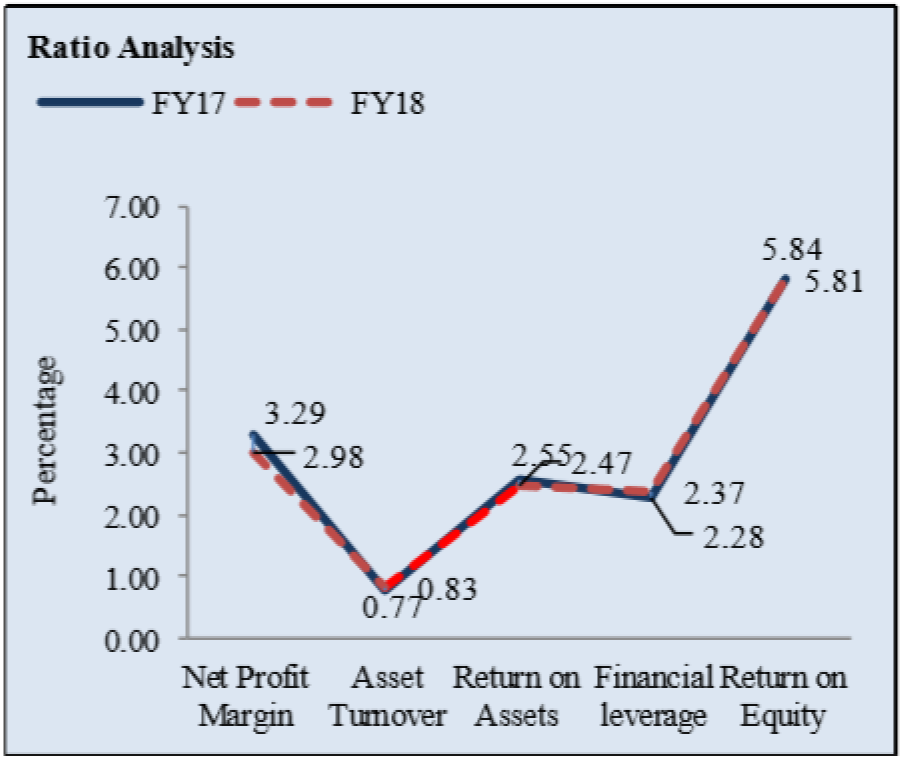

Fig.7. Ratio Analysis {Source: State Bank of Pakistan (2017-18)}

Conclusion

The sector playing a significant role in Pakistan's export sector and the current state of the textile industry is very good and there are many opportunities for the investors who make investment in different sub units of textile industry, there is a great potential for the individuals because as it clearly indicate and examined a promising results in the financial analysis of each and every aspects of financial and economical analysis which reflect the financial position and soundness of the sector. The Government and state bank of Pakistan role cannot be ignored in this regard, because it a play a vital role in the industrial and other sectors of the country. The foreign investors are also strongly encourage to make investments in this sector of the country, as the market has a great potential to absorb the opportunities of the textile sector

Policy Implications

In general, it is recommend that the textile and garment industries be economically and socially boosting the community, especially for women and foreign exchange receipts, and to provide opportunities for long-term and economic growth in these countries to improve the dynamic impact of the sector. The industry is very important for trade and GDP and handful of countries, offers to low-income countries to expand export diversification and exports, which can benefit from their labor benefits and fill emerging niche and growing consumer demand. In developing countries, the style and effects of the textile and garment industries have been affected by trade and other economic policies. Proper public policies and private sector countries have taken advantage of the opportunities offered by provisional trade preferences to advance in value-added. But it can still take full advantage of the opportunities offered to dynamically develop and diversify other activities. Therefore, the ability to contribute to the long-term growth and development of the textile and garment industry will depend not only on investor characteristics.

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