

A STUDY ON FINANCIAL HEALTHINESS OF SELECTED LEATHER INDUSTRIES IN INDIA

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Abstract- Financial statement analysis is a procedure for assessing an organization's current and historical financial positions as well as operating results. Several financial criteria must be evaluated in unison to effectively assess a company's financial health and long-term viability. Business growth depends on the accurate and timely analysis of financial statements. Effective financial statement analysis is essential for making good business decisions. Organizations can benefit from financial statement analysis in a variety of ways. It gives internal and external stakeholders the information they need to make effective investment decisions. Financial statement analysis also gives lending institutions an unbiased picture of a company's financial health, which is useful when making loan decisions. Liquidity, solvency, profitability, and operating efficiency are the four primary elements of financial health that should be reviewed. Keep this in view, the current paper analysis the financial healthiness of selected 5 leather industries in India using different statistical tools.

Key words: Financial Statement, Liquidity, Solvency, Profitability, Operational Efficiency

INTRODUCTION

The leather industry in India holds a very prominent place in the Indian economy. The leather and leather products industry is one of the oldest manufacturing industries in India. The industry has a massive potential for providing more employment, growth, and exports. Recently, the exports of leather and leather products have gained massive momentum. The exports of Indian leather goods have registered phenomenal growth. This is mainly because great emphasis has been placed on the planned development of the leather industry and at the optimal utilization of available raw materials.

It has been one the most vibrant sectors of the country's economy, and is well-structured and spans various processing and furnishing segments, such as tanning and finishing touch, making footwear and footwear components, producing leather garments and leather goods, including saddles and harnesses. It is important to note that Indian Leather Industry is growing by leaps and bounds.

SCOPE OF THE STUDY

The present study is directed towards analyzing the financial healthiness of selected leather industry in India. The study covers various problems relating to profitability, solvency of the selected companies from 2014-2015 to 2018-2019. The profitability of the sample companies is evaluated in terms of profitability, liquidity, financial health and value creation to its shareholders.

OBJECTIVES OF THE STUDY

To know the solvency position of selected leather industries

To analyses the liquidity position of selected leather industries

To offer recommendations for the improvement of financial healthiness of leather industry in India

RESEARCH METHODOLOGY OF THE STUDY

Data Sources

The study is mainly based on secondary data. Data were collected from "proWess" which is the most reliable and empowered corporate database of CMIE.

Period of Study

The present study covers a period of 5 years from 2014-2015 to 2018-19 in order to evaluate the liquidity and financial healthiness of selected leather industry in India.

Sample Design

The following five leather industries in India were studied for this research.

1. Bata India Ltd.,
2. Bharatiya International Ltd.,
3. Liberty shoes
4. Mirza International Ltd.,
5. Sree Leathers

Statistical Tools used

Statistical analysis is one of the most commonly used research methods. The following tools were used for in analyzing the data:

- Fulmer Model H Score – for Financial Healthiness
- Ratio Analysis – for Liquidity position

LIMITATIONS OF THE STUDY

This study is based on secondary data taken from CMIE Prowess and its findings depend entirely on the accuracy of such data. The firm's financial healthiness cannot be evaluated merely by profitability and liquidity and performance analysis alone.

REVIEW OF LITERATURE

Sankaran, S (1999)¹, has made a study on Indian leather Industry. He pointed out that the year to year the Indian Leather industry is marching a head with improved sales in the domestic industry of yesterday has grown into sizeable proportions which in the past years accounted only for a small part of total annual export of leather and leather products.

Chakkaraborty A.K and Ganesh, C. (1999)², have made a study on "Quality systems and the Indian Leather Industry" and explained that Quality has proved itself to be primary sector that makes or breaks an organization. The concept of quality has undergone a dramatic change from the one that adds value. Japan has even improved to the world that quality can in effect reduce cost. Improving quality with simultaneous cost reduction, from a comprehensive point of view has been made possible by quality management system (QMS)".

Thyagarajan, A.V. Srinivasan, A. Amudeswari(2010)³, state that they have made an in-depth analysis of the Indian Leather Industry and a forecast of its prospects in future. According to them, Indian Leather Industry has risen from the position of exporter of raw hides and skins to a level of major player in the global leather trade.

Dr. B. Saranya & Dr. V. Kavitha (2016)⁴, The preceding research was carried out with the primary goal of examining India's leather export performance. Economic fundamentals are vital in accelerating exports, according to the levels of study. The report proposes a number of concepts for importing leather manufacturers and exporting leather to various countries via various leather products. The survey also discovered that leather exports to several nations have increased dramatically, whereas exports to only a few nations have decreased. As a result, the government should adopt a variety of initiatives to boost leather exports, including providing additional regulations to encourage exports and encouraging countries to participate actively in increasing exports.

PROFILE OF THE SELECTED INDUSTRIES

Bata India Ltd.,

Bata India is the largest retailer and leading manufacturer of footwear in India and is a part of the Bata Shoe Organization. Incorporated as Bata Shoe Company Private Limited in 1931, the company was set up initially as a small operation in Konnagar (near Calcutta) in 1932. In January 1934, the foundation stone for the first building of Bata's operation - now called the Bata. In the years that followed, the overall site was doubled in area. This township is popularly known as Batanagar. It was also the first manufacturing facility in the Indian shoe industry to receive the ISO: 9001 certification. The Company went public in 1973 when it changed its name to Bata India Limited. Today, Bata India has established itself as India's largest footwear retailer.

Bhartiya International Ltd.,

Bhartiya has been India's largest exporter of leather apparel for more than fifteen years, producing leatherwear for global clients since 1990. They have nine production facilities in the Bangalore-Chennai region of South India, with a combined annual capacity of over half a million leather garments alone. Bhartiya also has manufacturing capabilities in China for leather garments, and this division is seeing increasing demand from European customers.

Liberty Shoes

The Liberty Shoes have been fashioning footwear, for well over 50 years now, for the style-conscious people around the globe. They started their journey as a small shoe manufacturing unit in Karnal, manufacturing a humble 4 pairs a day. Today, manufacturing 50,000 pairs a day and being one of the leading manufacturers in the leather footwear industry in India, They have indeed come a long way. Be a part of the company that has ten brands that have been making for a much effortless journey for its customer

Mirza International Ltd.,

The year 1979 saw the establishment of the erstwhile Mirza tanners private limited, later rechristened as Mirza International Private Limited, by Mr. Irshad Mirza and Mr. Rashid Mirza. Starting with a small tannery but driven by a big vision, they have systematically grown their operations to firmly establish themselves as India's leading leather footwear manufacturer and exporter. The glorious journey began with setting up of a small tannery for the manufacture of finished leather at Magarwara near Kanpur, Uttar Pradesh. The initial years were focused on supplying high-quality leather and leather products to the overseas markets. Additionally, with unflinching commitment to excellence and client satisfaction, the scale of operations expanded exponentially making Mirza International Private Limited emerge as India's largest exporters of finished leather

Sree Leathers

Sreeleathers was founded, as a small and humble organisation in Jamshedpur in 1952. Following his footsteps, the successive generations carried on the same path and expanded the business to become a leader in Eastern India. Today, Sree leathers, caters to public demand not only with the widest range of footwear, but also with allied products and accessories. Over the years it has become a household name, and the unparalleled queues that form outside the stores during festivals are part of local lore. This legendary success is a result of adhering to their founding principle, "World Class, Right Price". With this motto the company has established itself in the national as well as international markets.

ANALYSIS AND INTERPRETATION

(i) FULMER MODEL – H SCORE – Analysis for Financial Healthiness

Fulmer (U.S.1984) has used step-wise Multiple Discriminate Analysis to Evaluate 40 financial ratios to a sample of 60 companies - 30 failed and 30 were successful. He has reported a 98 percent accuracy rate in classifying the test companies one year prior to failure and an 81 percent accuracy rate more than one year prior to bankruptcy. This model is applied to find the financial healthiness of the companies under study. The following is the Fulmer Model:

$$H = 5.528V1 + 0.212V2 + 0.073V3 + 1.270V4 + 0.120V5 + 2.335V6 + 0.575V7 + 1.083V8 + 0.894V9 - 6.075$$

$H < 0$, then the firm is classified as 'Failed' otherwise 'Successful'

Where,

V1, =Retained Earnings/Total Assets

V2, =Sales/Total Assets

V3, =EBIT/EQUITY

V4, =Cash Flows//Total Debt

V5, =Debt/Total Assets

V6, =Current Liabilities/Total Assets

V7, =Log Tangible Total Assets

V8, =Working Capital/Total Assets

V9, =Log EBIT/Interest

The following table shows the ratios used in the H-score and its Co-efficient. The H-Score intends to cover the profitability, Efficiency, Liquidity and Solvency status of a firm. Using these H-scores of the ten companies are calculated and presented to know the financial healthiness of the companies in Table 1.1

Variable	Ratio	Indications	Coefficient
1	RE/TA	Profitability	5.528
2	SALES/TA	Efficiency	0.212
3	EBIT/EQUIY	Profitability	0.73
4	Cash Flow/ Total Debt	Liquidity	1.27
5	Total Debt/ TA	Solvency	0.12
6	CL/TA	Solvency	2.335
7	Long.Tan/TA	Solvency	0.575
8	Working Capital/ Total Debts	Liquidity	1.083
9	Log.EBIT/Interest	Solvency	0.894

H Factor = $5.528 * X1 + 0.212 * X2 + 0.73 * X3 + 1.27 * X4 - 0.12 * X5 + 2.335 * X6 + 0.575 * X7 + 1.083 * X8 + 0.894 * X9 - 6.075$

X1 = Average Retained Earnings / Average Total Assets

X2 = Revenues / Average Total Assets

X3 = EBIT / Total Equity*

X4 = Cash Flows from Operations / Average Total Debt**

X5 = Average Total Debt / Total Equity*

X6 = Total Current Liabilities / Average Total Assets

X7 = log(Average Tangible Assets)

X8 = Average Working Capital / Average Total Debt**

X9 = log(EBIT) / Interest Expense***

* Total Equity = (Market Cap + Preferred Stock Equity + Non-controlling Interests)

** If Average Total Debt is Zero, this quantity is assumed to be zero.

*** If Interest Expense is Zero, this quantity is assumed to be zero.

Table 1.2
H SCORE OF BATA INDIA LTD.,

1	BATA INDIA LTD.,	2015	2016	2017	2018	2019
V1	RE/T.A	0.12	0.10	0.06	0.08	0.09
V2	Sales/TA	5.79	4.41	3.80	3.68	3.53
V3	EBIT/Equity	5.14	4.67	3.68	5.11	7.50
V4	Cash Flow/Total Debt	24.19	18.51	46.50	31.58	65.26
V5	Total Debt/TA	0.08	0.10	0.09	0.08	0.08
V6	C.L/T.A	1.08	0.88	0.89	0.88	0.82
V7	Log. Tan. TA	2.70	2.75	2.82	2.87	2.94
V8	Working Capital/Total Debts	44.24	46.96	62.27	79.67	97.46

V9	Log. EBIT/Interest	1.43	1.44	0.59	0.60	0.76
	H score	83.54	78.09	128.46	129.49	193.37

Source: Annual Report

The above table 1.2 shows H Scores over a period of five years from 2015-2019 of Bata India Ltd. From the year 2015 there has been a steady increase in the H Score except in the year and 2016. The year 2019 shows the highest H Score.

FINDINGS:

FULMER MODEL – H SCORE – Analysis for Financial Healthiness

If the average H score of the selected industries is less than ZERO, it indicates that the company has failed, however if the average H score is greater than ZERO, it indicates that the company has succeeded. We may conclude that Bhartiya Int. Ltd. failed during the study period based on the Fulmer Model H Score. The remaining industries have earned “Successful” status, with Sree Leather having the highest average H score of 125.10, followed by Bata India Ltd. with an average H score of 83.53. Mirza Int. Ltd. and Liberty Shoes grab the next two spots, respectively.

RATIO ANALYSIS – Analysis for Liquidity position

In terms of current ratio, Bata India Ltd. has maintained a current ratio of greater than 2 throughout the research period. This indicates that it has a strong ability to satisfy current obligations by utilising current assets. With the exception of 2014-15, Sree Leathers has maintained a current ratio of greater than 1. The rest of the industries must increase their present ratio to at least 1.

In terms of quick ratio, nearly all of the industries evaluated have greater than one, demonstrating their capacity to satisfy short-term obligations with their most liquid assets.

SUGGESTIONS

Bhartiya Int. Ltd. was found to be in failing condition after a Fulmer Model H score study. To compete in the market, they must focus more on expanding their profitability and liquidity position. If funds are held in current assets needlessly, the company's profitability suffers. As a result, they should take the appropriate actions to invest in short-term securities in order to achieve the right balance of high and low liquidity.

For improving financial healthiness as successful, the industries should replace the old and worn-out machinery and to adopt new modernized machineries to reduce its cost of production which will increase their profit margin, solvency and liquidity position.

CONCLUSION

The purpose of this study is to assess the financial health of the selected leather industries from 2014-2015 to 2018-2019. During the research, it was discovered that the leather sector in India is extremely important for the country's economic development. India is the world's second-largest producer of leather garments and footwear, and the sector appears to be promising in the years ahead, given its enormous market potential. Reviewing financial statements is an important business practice since it allows top management to assess a company's balance sheet and profit statement to determine its economic health and profitability. Financial analysis assesses an organization's health and profitability while also providing an overview of how it operates. With the use of financial data, the current study investigates the financial health of selected leather industries in India. Sree Leathers is the most profitable and financially sound of the group, followed by Bata India Ltd., Mirza Int. Ltd., and Liberty Shoes. Bhartiya Int. Ltd., on the other hand, ranks worst in terms of profitability and financial health.

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