AN ANALYSIS OF FINANCIAL LEVERAGE & PROFITABILITY OF GARMENT MANUFACTURING COMPANIES IN GUJARAT

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Abstract

The financial activities of any companies are the major and key role playing activities. The term "Leverage" shows the amount of debt and the external borrowings of any company and in the basis of which the strength of the company can be determined. In this research paper, financial leverage analysis is made of four selected garment manufacturing companies in Gujarat. The objective of the study is to analyse the financial leverage, size on the basis of turnover and profitability of the company weather they are caring these ratios ideally or not. The researcher has adopted convenient sampling technique for the selection of the sample on the basis of availability of the company's data. Small sample t test is used as a statistical tool to analyse the data. The study concluded the significant relation in financial leverage but insignificant relation in size and profitability of the companies.

Keywords: *financial leverage, size, turnover, profitability*

Introduction

Financial Management is an appendage of the finance function. The financial management has become the most important branchy of business administration. It is not possible to think of any business activity in which finance is not included. The chairman and board of directors always accept and reject any project on the basis of their financial implication. Howard and Upton have observed: "Financial Management involves the application of general management principles to a particular financial operation". The main part of financial management is to raise the certain amount of finance with the lowest cost of capital. The leverage analysis of any financial activity measures the risk of acquiring the finance from the external source. The maximization of profit is measured on the basis of increment in earnings per share. The maximum profit of any firm or a company is based on the level of sales. Companies' financial decision are having significant impact on the different areas of the organisation. Thus, the most important aim of any financial management is to magnify the shareholders wealth. Which is only possible with the help of increase in profitability.

Leverage

Leverage has been defined as "the action of a lever, and the mechanical advantage gained by it". Christy and Roden have defined Leverage, "the tendency for profit to change at a faster rate than sales". Leverage is an advantage and disadvantage which is derived from earning a return on total investment and which is different from the return in the owner's equity. It is a relationship between equity share capital and securities which creates fixed intertest and dividend charges. Financial leverage generally helps the investors to take an appropriate decision on bases of the leverage data.

Profitability

Any decision of the company is totally dependent on the profit earning capacity of the company. To meet the financial requirement on time, the companies which are making good profit will only be able to cope up with the existing and upcoming debt. The good amount of profit of company will increase the credibility and so, the company can acquire more debt from outside. The past study shows the significant impact of high leverage in profitability.

Review of Literature

Gautam Sen and Ravi Ranjan (2018) have examined the impact of financial leverage on the profitability of TVS motor company limited. The study was conducted in the basis of secondary data. The researcher concluded that the financial position of the selected company was not properly determined. The researcher suggested that the control should be maintain in expending the variable cost and fixed cost to maintain the adequate profit. The researcher concluded the significant impact on profitability of financial leverage.

Sanjay J. Bhayani and Butalal Ajmera (2011) in a research paper titled, "An Empirical Analysis of Financial Leverage, Earnings and Dividend: A Case Study of Maruti Suzuki India Ltd.". The researcher has attempted to study the theoretical aspects of financial leverage and earning per share. The researcher has collected the secondary data and used the correlation statistics. The researcher has concluded the insignificant relation between degree of financial leverage and earning per share.

EvgenyIlyukhin (2015) has attempted to analyse an impact of financial leverage on the financial performance of the selected firm in Russia. The researcher has conducted a researcher on the large sample selected from the Russian Joint Stock Exchange. The secondary data was collected for the period of ten years. The researcher has concluded that there is a no significant impact of financial leverage on firm's performance of the company.

Objectives

- To analyse the financial leverage of the companies.

- To analyse the size (turnover) of the companies.
- To analyse the profitability of the companies.

Hypothesis:

- H_{01}: There is no significance difference in financial leverage.
- H_{02}: There is no significance difference in size (Turnover).
- H_{03}: There is no significance difference in profitability.

Methodology

The research is totally based on the secondary data which is collected from the annual reports of the selected companies. The data collected is for three years (2017–2019). The samples are selected on the basis of free availability of data and resources. The companies selected are as bellow.

1. Jindal Worldwide Ltd.
2. Globe Textile Ltd.
3. Soma Textiles & Industries Ltd.
4. Aarvee Denims & Exports Ltd.

Tools and Technique

The researcher has used T-statistics to analyse the significance of the selected variables. The descriptive statistics like mean and standard deviation are also used the analyse the data. The analysis was done in excel as has easy and efficient way to analyse the data.

Limitation of Study

The analysis is totally based on the secondary data and also for the period of three years. The researcher has also found out that the data which is hundred percent efficient for analysis was missing and calculated the ratio on the basis of the raw information available in the financial reports.

Analysis and Interpretation

To analyse and interpret the data and to test the hypothesis, descriptive statistics is used.

Table 1: Descriptive statistics

Company	Mean		
	Financial Leverage	**Size (Turnover)**	**Profitability**
Jindal Ltd	3.602	28.59	20.83
Globe Ltd	0.82	12.5	17
Soma Ltd	1.67	23.47	7
Aarvee Ltd	1	11.69	19.33

To analyse the financial leverage, size and profitability of the selected companies is shown in above table. From the selected companies, Jindal Ltd shows the highest degree of financial leverage. The highest size (Turnover) is of Jindal Ltd as well to 28 times a year and so it also shows the highest profit earning capacity.

A sample is drawn from normal population and the mean and variance of the sample. The value of t is computed from the given data and it is compared with the table value of t with an appropriate degree of freedom at a required level of significance. The ideal financial leverage of a company is 0.5. So on the basis of that, the population mean is taken as 0.5.

Table 2: Financial leverage

Financial Leverage					
Sample Mean	**Population Mean (Standard)**	**Standard Deviation**	**T-Statistics**	**D.f**	**5% Significant**
2.03	0.5	3.98	1.15	3	3.18

The above table shows the T-Statistics of Financial Leverage of the selected companies. The t calculated value of the analysis is 1.15 and the t table value is 3.18 at 5% level of significance. So here, t calculated value is less then t table value so null hypothesis is accepted.

Table 3: Size (Turnover)

Size					
Sample Mean	**Population Mean (Standard)**	**Standard Deviation**	**T-Statistics**	**D.f**	**5% Significant**
19.06	10	3.6	7.55	3	3.18

The above table shows the T-Statistics of Size (Turnover) of the selected companies. The ideal Turnover of a company is 10. So, on the basis of that, the population mean is taken as 10.The t calculated value of the analysis is 7.55 and the t table value is 3.18 at 5% level of significance. So here, t calculated value is less then t table value so null hypothesis is rejected.

Table 4: Profitability

Profitability					
Sample Mean	**Population Mean (Standard)**	**Standard Deviation**	**T-Statistics**	**D.f**	**5% Significant**
16.04	20	2.06	5.76	3	3.18

The above table shows the T-Statistics of Profitability of the selected companies. The ideal Profit percentage is of a company is 20%. So, on the basis of that, the population mean is taken as 20.The t calculated value of the analysis is 5.76 and the t table value is 3.18 at 5% level of significance. So here, t calculated value is less then t table value so null hypothesis is rejected.

Conclusion

The research study analysed the financial leverage, size and profitability of the company of a selected garment and fabric manufacturing companies in Gujarat. The data analysis and findings state the significant relation with the population mean. In T-statistics, $t_{calc}<t_{tab}$ for financial leverage, so null hypothesis is accepted hence there is no significant difference between the sample and the standard value of financial leverage. Also, $t_{calc}>t_{tab}$ for size (Turnover) so null hypothesis is rejected hence there is significant difference between the sample and the standard value of turnover. $t_{calc}>t_{tab}$ for financial leverage so null hypothesis is accepted hence there is no significant difference between the sample and the standard value of financial leverage.

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