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A STUDY ON THE SHAREHOLDERS WEALTH MAXIMISATION WITH REFERENCE TO VIJAYESWARI TEXTILES LTD, COIMBATORE

A SUMMER PROJECT REPORT (MBA703)

Submitted by

G.Karthikeyan
Register No: 0920400017

Under the Guidance of
Mr. A. Senthil Kumar

in partial fulfillment for the award of the degree

of

MASTER OF BUSINESS ADMINISTRATION

in

Department of Management Studies

KUMARAGURU COLLEGE OF TECHNOLOGY
(An Autonomous Institution Affiliated to Anna University of Technology, Coimbatore)

COIMBATORE – 641 049

October, 2010

KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE -641 049

Department of Management Studies

A SUMMER PROJECT WORK (MBA703)
OCTOBER 2010

This is to certify that the project entitled

A STUDY ON THE SHAREHOLDERS WEALTH MAXIMISATION WITH REFERENCE TO VIJAYESWARI TEXTILES LTD, COIMBATORE.

is the bonafide record of project work done by

G.Karthikeyan

Register No: 0920400017

of Master of Business Administration during the year 2010 – 2011

01/11/2010 Fn.

Project Guide

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Submitted for the Summer Project Viva-Voce examination held on 2/11/10

Internal Examiner

2/11/10

External Examiner

October 26, 2010

TO WHOMSOEVR IT MAY CONCERN

This is to certify that, Mr.Karthikeyan.G (Roll No.09MBA 17) from KCT Business School, Coimbatore has successfully completed his summer project work titled "A study on the Shareholders wealth maximization with reference to Vijayeswari Textiles Limited, Coimbatore", during the period 13.07.2010 to 18.08.2010.

During the project period, he has shown keen interest to learn new things.

We wish him all the best, in future endeavours.

Thanking you,

For VIJAYESWARI TEXTILES LIMITED

AUTHORISED SIGNATORY.

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DECLARATION

I affirm that the project work titled "A Study on the Shareholders Wealth Maximisation with reference to Vijayeswari Textiles Ltd, Coimbatore" being submitted in partial fulfillment for the award of Master of Business Administration is the original work carried out by me. It has not formed the part of any other project work submitted for award of any degree or diploma, either in this or any other University.

(G.Karthikeyan)
Roll No: 0920400017

I certify that the declaration made above by the candidate is true.

01/11/2010

Signature of the Guide,
With Name & Designation

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LIST OF ABBREVIATIONS

EVA	Economic Value Added
ECB	External Commercial Borrowing
NOPAT	Net Operating Profit after Tax
WACC	Weighted Average Cost Of Capital
GAAP	Generally Agreed Accounting Principle
MVA	Market Value Added
LIBOR	London Interbank Offer Rate
VTX	Vijayeswari Textiles Limited
WTO	World Trade Organisation

ABSTRACT

Wealth maximization is the primary objective of the finance function which succeeds profit maximization. A firm which can add more economic value to its shareholder is expected to enjoy patronage in capital market. Wealth maximization principle also helps the firm to study the impact of its decision in terms of value creation or value destruction. M/s. Vijayeswari textiles limited has a plan to source Rs.500 crore through the External Commercial Borrowing route. Hence an analytical study is conducted to understand the impact of this financial decision with respect to the Economic Value Added to the shareholders of Vijayeswari Textiles Limited, Coimbatore. The study is concluded that the company can source money through External Commercial Borrowing. The amount of ECB shall be a reasonable amount, since it will increase the leverage and also unutilized funds if any, will reduce the investment turnover. The unutilized part of the ECB can be such deployed for expansion plans, should the organization have such expansion plans in the near term. Though introduction of ECB will deteriorate the Economic Value Added initially, if the funds are utilized effectively it'll increase the shareholder wealth in near future.

CHAPTER 1

INTRODUCTION

CHAPTER 1

INTRODUCTION

1.1BACKGROUND

EVA MEANING:

In corporate finance, Economic Value Added or EVA is an estimate of a firm's economic profit - being the value created in excess of the required return of the company's shareholders - where EVA is the profit earned by the firm less the cost of financing the firm's capital. The idea is that shareholders gain when the return from the capital employed is greater than the cost of that capital. This amount can be determined, among other ways, by making adjustments to GAAP accounting, including deducting the opportunity cost of equity capital.

EVA is Net Operating Profit after Taxes (or NOPAT) less the money cost of capital. Any value obtained by employees of the company or by product users is not included in the calculations.

From a commercial standpoint, Economic Value Added (EVA) is the most successful performance metric used by companies and their consultants. Although much of its popularity is a result of able marketing and deployment by Stern Stewart, owner of the trademark, the metric is justified by financial theory and consistent with valuation principles, which are important to any investor's analysis of a company.

In other words, EVA charges the company rent for tying up investors' cash to support operations. There is a hidden opportunity cost that goes to investors to compensate them for forfeiting the use of their own cash. EVA captures this hidden cost of capital that conventional measures ignore.

Developed by the management consulting firm Stern Stewart, EVA really caught fire in the 1990s. Big corporations, including Coca-Cola, GE and AT&T, employ EVA internally to measure wealth creation performance. In turn, investors and analysts are now scrutinizing company EVA just as in the past they observed EPS and P/E ratios. Stern Stewart has gone so far as to trademark the concept.

EVA is based on the concept that a successful firm should earn at least its cost of capital. Firms that earn higher returns than financing costs benefit shareholders and account for increased shareholder value. In its simplest form, EVA can be expressed as the following equation:

EVA = Net Operating Profit after Tax (NOPAT) – Weighted Average Cost of Capital

1.2 ABSTRACT TO REVIEW OF LITERATURE:

Robbie Lewis and W.Hadley Leavell[1] observed that the quest of becoming a world-class company and becoming competitive in a global market has sharply altered the way in which many business are currently managed. There is a growing demand from the investment community that forces business to utilize new performance measurement tools that more accurately reflect the growth of the business. The Economic Value Added (EVA) concept has provided one foundation for his evolution. Most companies adopting EVA have seen a superior stock price performance that correlated with the improved financial performance.

John P. Evans and Robert T. Evans[2] found despite a growing literature, the relationship between the structure of executive compensation and firm performance is not fully understood. Furthermore, little work has been done on the link between Economic Value Added (EVA) as a measure of firm performance and the form of executive compensation. An examination of the compensation structure and economic value added of 209 companies in 1995 - 1998 provides evidence supporting incentive compensation. Economic Value Added is found to be positively and significantly related to incentive based compensation. Cash based remuneration, was found to be unrelated to EVA performance.

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[1] Robbie Lewis and W.Hadley Leavell, Economic value added, 1995, August, No. 95-17G
[2] John P. Evans and Robert T. Evans, An examination of Economic Value Added and Executive compensation, 2002, EFMA.

Susana M. Peixoto [3] observed Economic Value Added (EVA) is a value-based performance measure developed by Stern Stewart & Co. that offers a means of measuring and communicating performance and that may be used in setting performance targets, paying bonus, and valuing capital projects or companies. Based on a survey of Portuguese public companies listed on the Lisbon Stock Exchange, research was carried out on the awareness and the utilization of various performance measures. The results indicate that managers elect performance measures based on net income. Yet more sophisticated measures such as EVA or CFROI are being increasingly adopted. The major contribution of this study is the analysis of the information content regarding Operating Income, Net Income and EVA, based on a sample of 39 Portuguese public companies during the period from 1995 to 1998. The main results suggest that EVA does not have more information content than traditional performance measures in explaining Equity Market Value. The relationship between EVA and Market Value Added (MVA), however, is statistically significant.

Esa Mäkeläinen[4] described the introduction to Economic Value Added and the average return on stock markets. The average long run return on stock markets has been very stable in Sthe past country. Investors can easily achieve the average stock market return in the long run. Losing the alternative return or even a part of the easily available alternative return is losing money. Therefore investors and company owners do not accept below average returns in the long run from any of their companies. The alternative return establishes a minimum return requirement.

Asish K Bhattacharyya & B.V.Phani[5] observed in this paper explains the concept of Economic Value Added (EVA) that is gaining popularity in India. The paper examines whether EVA is a superior performance measure both for corporate reporting and for internal governance. It relied on empirical studies in U.S.A. and other advance economies. It concluded that though EVA does not provide additional information to investors, it can be adapted as a corporate philosophy for motivating and educating employees to differentiate

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[3] Susana M. Peixoto, Moderna University of Porto, Economic value added- Application to Portuguese public companies, 2002.
[4] Esa Mäkeläinen, Introduction to Economic Value Added, 1998, March, 10.
[5] Asish K Bhattacharyya & B.V.Phani, Economic Value Added - A General Perspective, 2004, May.

between value creating and value destructing activities. This would lead to direct all efforts in creating shareholder value. The paper brings to attention the dangerous trend of reporting EVA casually that might mislead investors.

Michael Durant[6] found that Adam Smith, one of the fathers of classical economic thought, observed that firms and resource suppliers, seeking to further their own self-interest and operating within the framework of a highly competitive market system, will promote the interest of the public, as though guided by an "invisible hand. " (Smith, 1776).

MPI Securities, Inc.[7] presented an overview of EVA, in that MPI Securities, Inc. is pleased to present the enclosed information on Economic Value Added. Economic Value Added is an analytical framework which measures profit relative to the cost of capital employed to achieve it. It is a powerful tool for measuring corporate performance and allocating capital. We recently advised a foreign conglomerate regarding the adoption of Economic Value Added as a basis for performance measurement and capital allocation.

Gregory T. Fraker[8] Economic Value Added, is a tool that bankers can use to measure the financial performance of their bank. Since EVA has only been used in the U.S. banking industry since 1994 and is not as well known as other measures of bank performance, it is the objective of my paper to introduce EVA to those who are unfamiliar with it. To achieve this objective, my paper includes a hypothetical example using EVA to assess how the financial performance of a fictitious bank, ABC Bank, would change if its management decided to securitize a portion of its credit card loans in an effort to improve its capital adequacy.

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[6] Michael Durant, Economic Value Added: The Invisible Hand at Work, Credit research foundation,1999.

[7] MPI Securities, Inc., Overview of Economic Value Added Presented by MPI Securities, Inc., Spring 2008.

[8] Gregory T. Fraker, Using Economic Value Added (EVA) to Measure and Improve Bank Performance, Paper writing contest, Arizona chapter, 2006.

Pablo Fernández[9] observed in analyze 582 American companies using EVA, MVA, NOPAT and WACC data provided by Stern Stewart. For each of the 582 companies, we have calculated the 10-year correlation between the increase in the MVA (Market Value Added) each year and each year's EVA, NOPAT and WACC. For 296 (of the 582) companies, the correlation between the increase in the MVA each year and the NOPAT was greater than the correlation between the increase in the MVA each year and the EVA. There are 210 companies for which the correlation with the EVA has been negative! The average correlation between the increase in the MVA and EVA, NOPAT and WACC was 16%, 21% and –21.4%. The average correlation between the increase in the MVA and the increases of EVA, NOPAT and WACC was 18%, 22.5% and –4.1%. We also find that the correlation between the shareholder return in 1994-1998 and the increase in the CVA (according to the Boston Consulting Group) of the world's 100 most profitable companies was 1.7%.

[9] Pablo Fernández, EVA and Cash value added do NOT measure shareholder value creation, IESE Business School.

1.3 STATEMENT OF THE PROBLEM:

Wealth maximization is the primary objective of the finance function which succeeds profit maximization. A firm which can add more economic value to its shareholder is expected to enjoy patronage in capital market. Wealth maximization principle also helps the firm to study the impact of its decision in terms of value creation or value destruction. M/s. Vijayeswari textiles limited has a plan to source Rs.500 crore through the External Commercial Borrowing route. Hence a study is conducted to understand the impact of this financial decision with respect to the Economic Value Added to the shareholders of Vijayeswari Textiles Limited, Coimbatore.

1.4 ORGANIZATION PROFILE

1.4.1 HISTORY OF THE ORGANIZATION:

From a small generic yarn manufacturer at inception VTX grew into a fine count spinner able to sell and compete in all the prime markets in the world. The pioneering spirit exhibited is imbibed in every member of the family. Our Chairman, Shri. G.K. Rajagopal hailing from such an industrious family graduated in textiles in Philadelphia College of Textiles and Sciences, USA. During his tenure as a Managing Director of Lakshmi Mills he was instrumental in bringing revolutionary changes in its business operations. During his Directorship from the year 1955 to 1995 he was the key factor in bring in technical advancements to the company.

Lakshmi Mills Company from 1962, started having its technical collaborations with Rieter, Ruti, Graf and many other companies in Switzerland, manufacturing Textile Machineries and expanded to a remarkable extent with the indelible participation of Shri. G.K. Rajagopal. The technical spirit and knowledge of our Chairman is well known from those days and continuing till now with an endeavor to bring in technical advancement and professional excellence carried through Shri. A.L. Ramachandra our Managing Director and his daughter Smt. Jayanthi Ramachandra, Joint Managing Director.

1.4.2 ABOUT VTX:

Vijayeswari textiles, known as VTX was established in 1954 as a yarn manufacturer and soon developed a reputation for spinning super fine cotton yarns made exclusively from selected, longstaple cotton grown in India, Egypt and America. The company also produces linen/ cotton and silk cotton blended fabrics.

The limited public company expanded into sophisticated weaving, finishing and sewing focusing on home fashions. Today, VTX generates annual sales of more the US $ 30 Million on its finished home textiles, including sheets pillow, shams, duvet covers, quilts matelasse coverlets, blankets and throws.

VTX is a vertically integrated company with a complete range of modern machinery and more than 3200 employees. In spinning the company's 50,000 spindles produce 1260 tons of yarn every year. Weaving equipment ranges from basic shuttleless looms to sophisticated electronically controlled jacquard looms. VTX owns a complete range of customized sewing machines that produce high-quality finished products at affordable prices. Many of the company's bedlinen products are embellished with fancy embroidery, pin-tucking, pleating, crochet and decorative quilting using state of the art German and Belgian machinery. VTX factories produce 2.8 million units annually and the company is currently investing in its new facilities that will double its capacity to address the marketing needs.

1.4.3 REACH OF VTX:

VTX a pioneering textile company produces the finest quality Bed Linen that is enjoyed by consumers worldwide.

A group with over 90 years of experience in the business, we are still committed to our belief that if you combine quality cotton, continually advancing technology with innovative design, you will deliver the finest products to the customer consistently. Our sales growth in bedding is a testament to this.

From a small generic yarn manufacturer at inception VTX grew into a fine count spinner able to sell and compete in all the prime markets in the world. The pioneering spirit exhibited is imbibed in every member of the family. VTX expanded into specialized weaving finishing and sewing. It has now the ability to transfer selected fiber into a finished package ready to go on to the shop floor of demanding markets anywhere in the world using its own resources.

To display our design lines to visiting customers we have esthetically designed well equipped showroom at our corporate head office. In house stylists work together to dress the beds very professional creating a cordial working come sales atmosphere for our customers. We have 3 international showrooms in USA, UK and Australia. VTX appointed marketing directors service the need of the customers locally through these offices. Marketing director's work with all our global customers in liaison with the Indian office. They provide timely updates and solutions making buying decisions cost effective and time saving.

The Company is now a player in the home textiles segment with a firm foothold in the niche segment of high-end 'bedroom products' and its customers include some of the world's leading retailers such as Macy's, Kohl's and Laura Ashley. The Company has also entered the branded arena with ingredient brands, KottonDor and GenuisaCotton. The entire production of made-ups is exported.

1.4.4 OVERVIEW OF PRODUCTS AND SERVICES:

VTX is a vertically integrated textile manufacturing and exporting company with an international presence. Our Spinning, Weaving, Processing (dyeing) and Sewing units are located in and around the textile city of Coimbatore, in Southern India.

Sheeting: Sheets & Pillow case

Using Basic hem treatments like merrowing, picotting, pintuck, scallop, lace attachments, ribbon attachments etc, Using trendy finishes and different types of embellishments like boring, embroidery etc. the base fabric used normally is 100% cotton, different blends of linen and cotton, Bamboo, Organic Cotton etc, in percale, satin, dobby and Jacquard designs.

Top of Bed: Duvet cover and Shams

Using Basic hem treatments like merrowing, picotting, pintuck, scallop, lace attachments, ribbon attachments etc... and trendy finishes using different types of embellishments like boring, embroidery etc. the base fabric normally is 100% cotton. Different blends of linen cotton, Silk Cotton etc, in percale, satin, dobby and Jacquard designs.

Quilted bedspreads / Coverlets

They produce both machine quilts and hand made quilts. The quilting also includes the regular checks / stripes patterns and also embroidery patterns. The other embellishments include finishes using laces, crystals, etc. The base fabric is 100% cotton, Linen Cotton , Bamboo , Organic Cotton, Silk Cotton & 100% Silk.

Decorative cushion covers

They also produce decorative cushion covers with different types of embroidery; edge finishes like lace attachments, scallop, crystal attachments etc..,.

Quilts

They produce both machine quilts and hand made quilts. The quilting also includes the regular checks / stripes patterns and also embroidered patterns. The other embellishments include finishes using laces, crystals, etc,. The base fabric although 100% cotton, we also specialize in Linen Cotton, Silk Cotton & 100% Silk.

Matelasse Coverlets

The new addition to their product range is the Egyptian cotton matelasse coverlets. These are produced as both solid dyed and yarn dyed in 100% Cotton and Organic Cotton.

Blankets / Throws

VTX also produces Soft blankets using 100% Cotton and bamboo fibers etc,.

Lounge/Night wear

VTX also produces Pyjama & Robes in different styles, using the required embellishments.

1.4.5 CAPACITY:

- **Spinning**: 50,000 Spindles spins out 1260 tones of yarn every year varying from the 90's to the finest of 200's.
- **Weaving:** The modern weaving unit consists of shuttle less weaving machines, including Jacquards rolling out 54,00,000 meters of fabric annually.
- **Processing**: State of the art processing plant has computerized micro process controlled latest machinery, processing 54,00,000 meters of fabric every year.
- **Sewing:** The unit is capable of manufacturing 31,76,000 pieces per annum.

1.4.6 MANAGEMENT

CHAIRMAN

Shri. G.K. Rajagopal

MANAGING DIRECTOR

Shri. A.L. Ramachandra

JOINT MANAGING DIRECTOR

Smt. Jayanthi Ramachandra

1.4.7 BRANDS

- Genuisa Cotton
- KottonD'or

1.4.8 STRENGTH OF THE COMPANY:

- Yet now the company concentrated only on foreign market, but from this year they enter into domestic market.
- Since there is less number of home textile companies are in domestic market, it's an advantage for the company to create a brand with quality.

1.4.9 FUTURE PLAN:

- In near future they going to increase the plant capacity.
- Company tends to go for External Commercial Borrowing.

1.5 OBJECTIVES OF THE STUDY:

- To identify the Economic Value Added to Shareholders by Vijayeswari Textiles Limited.
- To find out the impact of value added/destroyed with introduction of External Commercial Borrowing (ECB).

1.6 SCOPE OF THE STUDY:

An investor evaluates an organization based on the value created by it for him. The behavior of the stock returns will enable the investors to make appropriate investment decision. The fluctuations in shareholders wealth maximization may be due to several economic and non economic factors.

1.7 LIMITATIONS:

Though utmost care was taken to do the research articulately, it is liable to certain limitations, viz.

- This analysis is made using secondary data only.
- Individual interest components are not available, so the simple average of debt is taken as interest.
- This study is applicable only to Vijayeswari Textiles Ltd., Coimbatore.

CHAPTER 2

RESEARCH METHODOLOGY & MACRO AND MICRO STUDY

CHAPTER 2.A

RESEARCH METHODOLOGY

2.A.1 TYPE OF THE STUDY:

Analytical research

2.A.2 METHOD OF DATA COLLECTION:

Primary data: Unstructured Interviews with the finance people in the organization.

Secondary data: Audited and published annual reports of the organization.

2.A.3 TOOLS FOR ANALYSIS:

EVA = NOPAT-(CAPITAL * WEIGHTED AVERAGE COST OF CAPITAL)

2.A.4 VARIABLES FOR THE STUDY:

- Net operating profit after tax
- Capital
- Cost of equity
- Cost of debt
- Weighted average cost of capital
- ECB rate

2.A.5 PERIOD OF THE STUDY:

- Phase 1: 03 Financial years 2005-08: Before economic slowdown.
- Phase 2: 02 Financial years 2008-10: During economic slowdown.
- Phase 3: 03 Financial years 2010-13(projected): Economic recovery.

CHAPTER 2.B

MACRO AND MICRO STUDY

Textile industry is the ancient and also evergreen industry. In that home textile is the advanced and innovative idea. Here we can see the performance of textile industry in global and Indian scenario.

2.B.1 GLOBAL TEXTILE INDUSTRY:

With the invention of the spinning and weaving machines in Britain, the world textile industry witnessed a remarkable development, culminating in the Industrial Revolution that would once again change old customs of manufacturing. The high production of wool, cotton and silk, registered all over the world for the past few years, brought its undeniable contributed to the development of economy all over the world.

From the UK, where it was formerly launched, the textile industry and textile production was soon after that passed over to Europe and also North America, in the 19th century, the manufacturing processed was mechanized in these areas. As time passed, other countries especially those of Asia, gradually began investing more in this sector, especially in the industrialization of their economies and nevertheless textile industry, which gradually started to gain more and more ground. So the textile industry also moved to Japan, India, Hong Kong and China, which eventually found their way to being leading textile manufacturers, especially due to the cheap labor force.

The incentive came soon after, with the Industrial Revolution from the 18th century and so the textile industry witnessed a tremendous growth, and the production of clothing was to be changed to mainstream industry. However, the 20th century textile industry acquired a rather bad reputation, since now the workforce was mainly that of immigrants who worked in illegal "sweat shops", and paid less than minimum wages.

Gobalisation, which would later take over, would help outsource the whole manufacturing process, particularly in areas where trade with textile was common. Leaders in

this business changed their focus to the white collars, and it was that that the industry of fashion design emerged together with fashion modeling, which also started to flourish and t become in our days a million-dollar industry.

The textile industry, also called the "rag trade" in the United Kingdom and Australia, deals with the design and manufacturing of clothing items, and takes care of the distribution process, using textiles. Based on current statistics, the global textile market is at the moment worth a little more than $400 billion, in spite of the fierce competition textile industry had to face, from other industries.

Between 2002 and 2010 it is estimated that the global textile production will increase be a staggering 25 percent, with Asia being the region that is going to bring its major contribution to this tremendous growth.

2.B.2 FUTURE OF INDIAN TEXTILE INDUSTRY:

The textile industry in India is one of the flourishing sectors of Indian economy. It contributes more than 13% to industrial output, 16.63% to export revenues and 4% to the nation's GDP. In the year 2010, the industry is estimated to produce 12 million jobs with an investment of US$ 6 billion in the fields of textiles equipments and structure, and garment manufacturing by the end of 2015.

Union Ministry of Textiles certified Apparel Export Promotion Council (AEPC) has taken the responsibility to motivate the foreign investors to invest in Indian Textile industry by exhibiting it massive unexplored domestic market. It has also formulated and endorsed the motto of "come, invest, produce and sell in India". Under this the ministry has decided to send it representatives to Germany, Switzerland, France, Italy and US. The objective is to trigger the foreign investment towards instituting textile units in India by offering numerous allowances to global investor like low-priced workforce and intellectual right fortification.

The government of India has also taken few initiatives to promote the textile industry by permitting 100% Foreign Direct Investment in the market. Owing to the upright and straight incorporated textiles price chain, the Indian textile industry symbolizes a strong existence in the

complete value chain from raw commodities to finished products. The Synthetic and Rayon Textile Export Promotion Council (SRTEPC) has taken all the required steps to meet the target of doubling the synthetic textile exports in India to US$ 6.2 billion by seizing 4% of market share by FY 2011-12.

Currently it is estimated to be around US$ 52 billion and is also projected to be around US$ 115 billion by the year 2012. 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. The textile export of the country was around US$ 19.14 billion in 2006-07, which saw a stiff rise to reach US$ 22.13 in 2007-08. The share of exports is also expected to increase from 4% to 7% within 2012.

Following are area, production and productivity of cotton in India during the last six decades:

Year	Area in lakh hectares	Production in lakh bales of 170 kg	Yield kg per hectare
1950-51	56.48	30.62	92
1960-61	76.78	56.41	124
1970-71	76.05	47.63	106
1980-81	78.24	78.60	170
1990-91	74.39	117.00	267
2000-01	85.76	140.00	278
2001-02	87.30	158.00	308
2002-03	76.67	136.00	302
2003-04	76.30	179.00	399
2004-05	87.86	243.00	470
2005-06	86.77	244.00	478
2006-07	91.44	280.00	521
2007-08	94.39	315.00	567
2008-09	93.73	290.00	526

Source: www.mapsofindia.com

Though during the year 2008-09, the industry had to face adverse agro-climatic conditions, it succeeded in producing 290 lakh bales of cotton comparing to 315 lakh bales last year, yet managed to retain its position as world's second highest cotton producer.

Strengths:

- Vast textile production capacity
- Large pool of skilled and cheap work force
- Entrepreneurial skills
- Efficient multi-fiber raw material manufacturing capacity
- Large domestic market
- Enormous export potential
- Very low import content
- Flexible textile manufacturing systems

Weaknesses:

- Increased global competition in the post 2005 trade regime under WTO
- Imports of cheap textiles from other Asian neighbors
- Use of outdated manufacturing technology
- Poor supply chain management
- Huge unorganized and decentralized sector
- High production cost with respect to other Asian competitors

2.B.3 CURRENT FACTS ON INDIAN TEXTILE INDUSTRY:

- India retained its position as world's second highest cotton producer.
- Acreage under cotton reduced about 1% during 2008-09.
- The productivity of cotton which was growing up over the years has decreased in 2008-09.
- Substantial increase of Minimum Support Prices (MSPs).
- Cotton exports couldn't pick up owing to disparity in domestic and international cotton prices. Imports of cotton were limited to shortage in supply of Extra Long staple cottons.

CHAPTER 3

DATA ANALYSIS AND INTERPRETATION

CHAPTER 3

DATA ANALYSIS AND INTREPRETATION

3.1 CALCULATION OF WEIGHTED AVERAGE COST OF CAPITAL:

FORMULA:

WACC = (Equity/Total capital*dividend) + (Debt/Total capital*Interest)(1-tax)

TABLE 3.1

YEAR	WACC
2005-06	6.964%
2006-07	4.907%
2007-08	6.034%
2008-09	3.85%
2009-10	3.261%

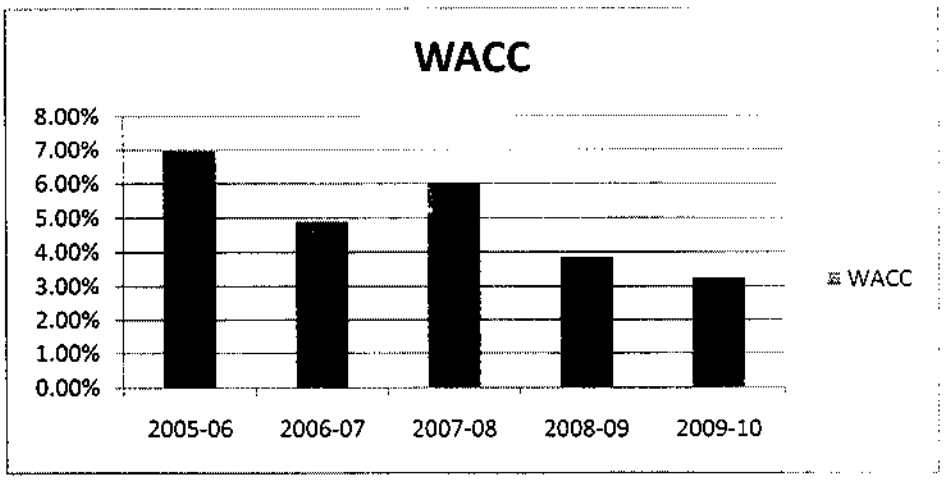
Interpretation:

The weighted average cost of capital has decreased drastically from 2005-06 to 2009-10, where from almost 7% to 3.2%. The sudden decrease in 2008-09 is because, due to loss on that year the company didn't announced dividend on that year.

Inference:

In 2008-09 due to nil dividend, the cost of capital is reduced. In next year 2009-10 the dividend announced is 5%, so it didn't reflect much in cost of capital. In last the year 2008-09, company reduced the cost of debt to 4.76%. This shows that the company is doing well in terms of maintaining liability.

CHART 3.1



3.2 CALCULATION OF WACC WITHOUT AND WITH ECB:

TABLE 3.2

YEAR	WACC (Without ECB)	WACC (With ECB)
2010-11	4.31%	3.13%
2011-12	4.83%	3.31%
2012-13	5.65%	3.73%

Interpretation:

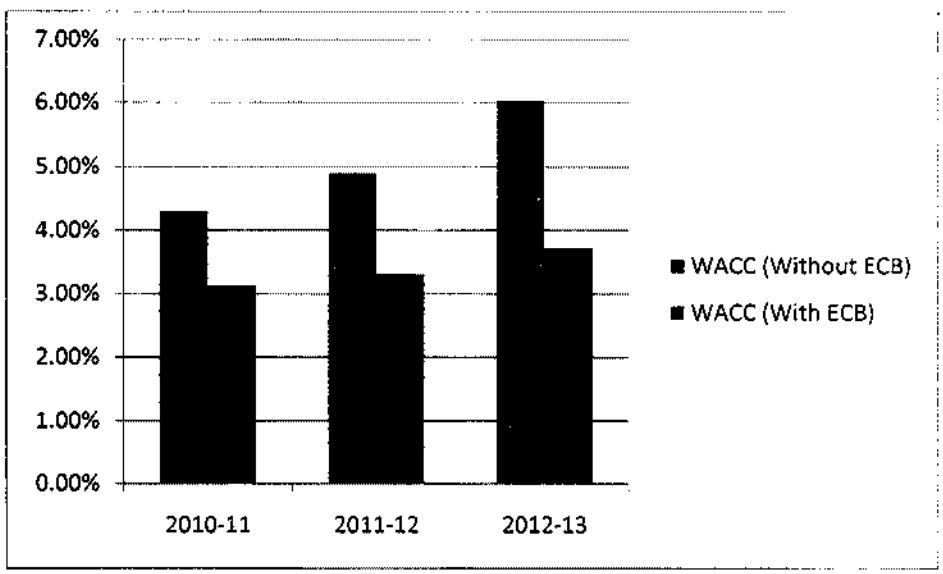
The weighted average cost of capital for the subsequent year 2010-13 were calculated using the year 2009-10 as base. The inflation rate is taken as an escalating factor.

The above table shows that the WACC without External Commercial Borrowing will rise to 5.65% in 2012-13 from 4.31% in 2010-11. However, the WACC has only moderately increased from 3.13% in 2010-11 to 3.73% in 2012-13.

Inference:

It is clearly shown from the table that going for ECB will reduce the weighted average cost of capital. But it doesn't shown big difference. Though the amount of debt is big, the interest amount will come down.

CHART 3.2



3.3 ECONOMIC VALUE ADDED:

TABLE 3.3

YEAR	EVA (Rs. In lakh)
2005-06	971.7
2006-07	858.65
2007-08	-199.1
2008-09	-2147.95
2009-10	-557.18

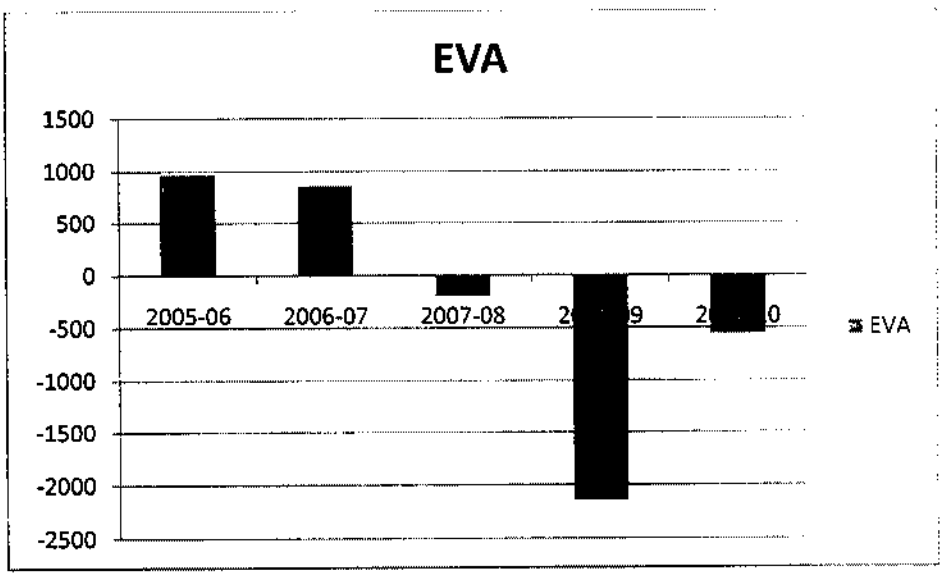
Interpretation:

The above table shows that the Economic value added is decreasing from the year 2005-06, but shows an improvement in 2009-10. During the year 2008-09 the EVA is very low.

Inference:

The above table infers that, the Economic value added is very low in year 2008-09. This is because of not announcing dividend due to Economic slowdown. But the company is able to come back in the next year by almost taking back the EVA to positive level.

CHART 3.3



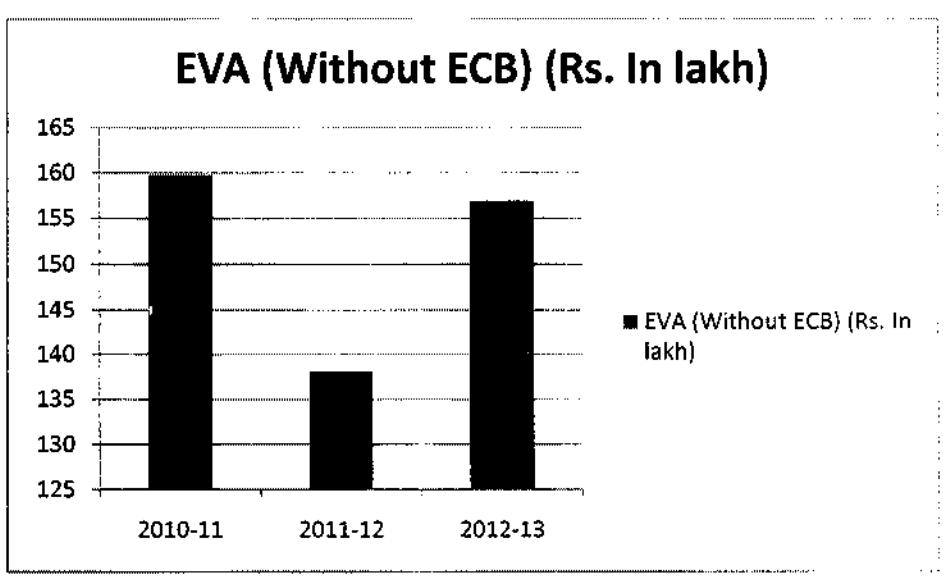
3.4 CALCULATION OF EVA WITHOUT ECB:

The calculation of EVA for the forthcoming three financial years, in assumption of company is not going for External Commercial Borrowing is given below:

TABLE 3.4

YEAR	EVA (Without ECB) (Rs. In lakh)
2010-11	159.76
2011-12	138.14
2012-13	156.94

CHART 3.4



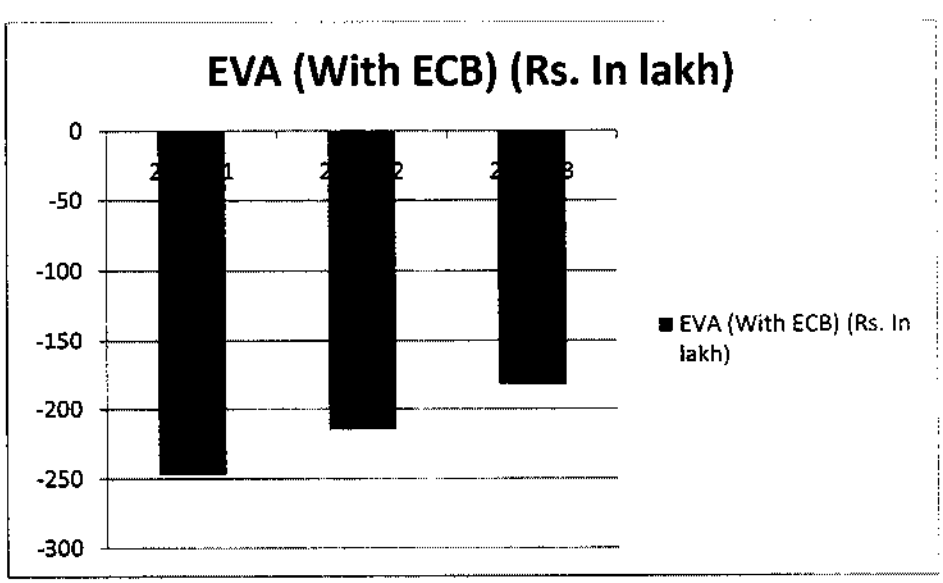
3.5 CALCULATION OF EVA WITH ECB:

The calculation of EVA for the forthcoming three financial years, in assumption of company is going for External Commercial Borrowing is given below:

TABLE 3.5

YEAR	EVA (With ECB) (Rs. In lakh)
2010-11	(246.86)
2011-12	(215.14)
2012-13	(182.77)

CHART 3.5



Interpretation:

The above table 4.4 and 4.5 indicates that in the event of no ECB, the Economic Value Added is consistent at (Rs.156.94) lakh in 2012-13. Whereas, in the event of ECB, the Economic Value Added dips to negative level from (Rs.246.86 lakh) to (Rs.182.77 lakh) in the year 2012-13.

Inference:

The above table infers that infusion of ECB will deteriorate the Economic Value Added. This may be attributed to the large sum of Rs.500 crores proposed to be raised through ECB.

3.6 COMPARISON OF EVA WITHOUT AND WITH ECB:

The comparison of Economic value Added if company will not go ECB and if it goes, is given;

TABLE 3.6

YEAR	EVA (Without ECB) (Rs. In lakh)	EVA (With ECB) (Rs. In lakh)
2010-11	159.76	(246.86)
2011-12	138.14	(215.14)
2012-13	156.94	(182.77)

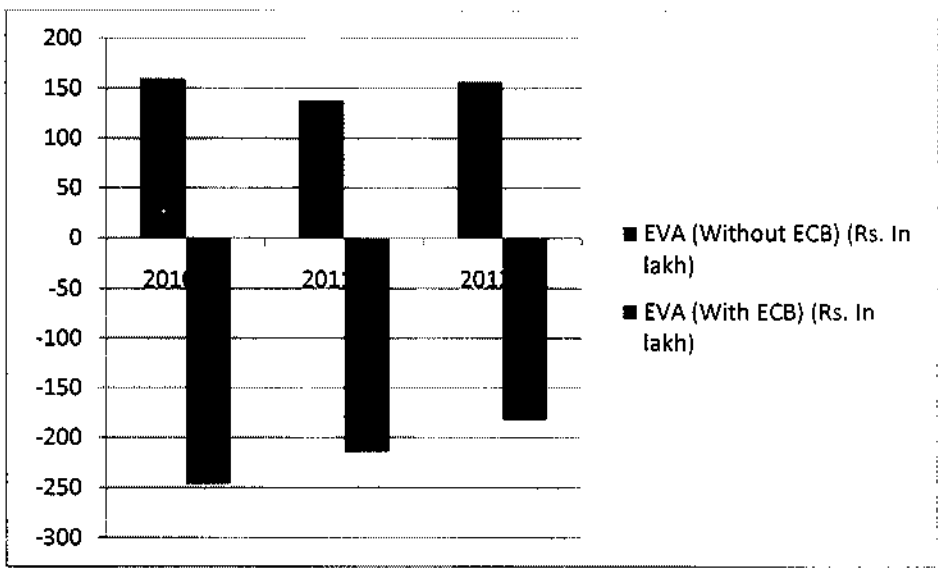
Interpretation:

From the above table, EVA of without ECB is shown decrease in first two years and growth in third year. But the EVA with ECB is even in negative, it shows the constant increasing growth.

Inference:

The above table inference that, the EVA is negative incase of going for ECB because the amount they planned to get as debt is almost double than previous years, so the high debt burden reflects in the beginning years. But the constant improvement shows the positive sign that soon the EVA reaches the good position.

CHART 3.6



CHAPTER 4

CONCLUSION

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CONCLUSION

4.1 FINDINGS:

- The weighted average cost of capital has decreased drastically from 2005-06 to 2009-10, where from almost 7% to 3.2%.

- WACC without External Commercial Borrowing will rise to 5.65% in 2012-13 from 4.31% in 2010-11.

- Economic value added is decreasing from the year 2005-06, but shows an improvement in 2009-10. During the year 2008-09 the EVA is very low.

- The company doesn't announce dividend in the year 2008-09. And it reflects in the weighted average cost of capital in the consequent years.

- The Economic Value Added is consistent at (Rs.156.94) lakh in 2012-13. Whereas, in the event of ECB, the Economic Value Added dips to negative level from (Rs.246.86 lakh) to (Rs.182.77 lakh) in the year 2012-13.

- EVA calculated without ECB shows decrease in the first two years and had shown improvement in the third year. But the EVA calculated with ECB is negative in the initial years but there are signs of reaching Break Even in the subsequent years.

- Primary purpose of going for ECB is to replace the high cost loan and thereby do Debt Restructuring.

- The company is planning to get Rs.500 crore through ECB in lower cost in order to replace the existing high cost loans worth Rs.263.78 crore. For unutilized portion of ECB, i.e., Rs.236.22 crore there is no immediate plan to invest as of now.

- The External Commercial Borrowings route requires advisory and mediatory service from banks. However the access to such qualified and specialized services at a reasonable cost is seriously limited to a very few in Coimbatore.

- The ECB also requires a qualified staff to liason with the banks and other parties. This requires an employee with necessary domain knowledge from the organization to take up this debt restructuring plan.

4.2 SUGGESTIONS:

- The researcher suggests the company to rethink on the amount of debt. The debt restructuring plan require only a part of the proposed Rs.500 crore. Raising of Rs. 500 crore will increase the weighted average cost of capital and adversely react on the Economic Value Added.

- During the research, it has come to know that company is having a plan for expansion in future. If so, the rest of the amount in Rs.500 crore after meeting out the debt restructuring can invest in the expansion projects.

- From the study, it has come to know that most of the banks in Coimbatore are not much aware or not have sound knowledge about External commercial borrowing. So the company shall appoint an Investment consultant to be a liasoning officer for the debt restructuring plan.

4.3 CONCLUSION:

- The study is concluded that the company can source money through External Commercial Borrowing. The amount of ECB shall be a reasonable amount, since it will increase the leverage and also unutilized funds if any, will reduce the investment turnover. The unutilized part of the ECB can be such deployed for expansion plans, should the organization have such expansion plans in the near term.

- Though introduction of ECB will deteriorate the Economic Value Added initially, if the funds are utilized effectively it will increase the shareholder wealth in near future.

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