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A Comparative Study on Liquidity Analysis of Selected Textiles Industry in India

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Abstract

Liquidity management is essential for the survival and growth of firms, particularly in working-capital-intensive industries like textiles. This research aims to analyze and compare the liquidity position of selected textile companies in India using key financial ratios over a five-year period. It investigates how these firms manage short-term obligations and what that reveals about their operational efficiency, credit policy, and financial stability. The paper uses current ratio, quick ratio, and cash ratio for the analysis and applies statistical tools to compare firms like Arvind Ltd., Vardhman Textiles, Raymond Ltd., and Trident Ltd.

Keywords: Liquidity Management; Working Capital; Financial Ratio Analysis; Current Ratio; Quick Ratio; Cash Ratio; Textile Industry; Comparative Study

1. Introduction
The Indian textile industry contributes 2% to GDP and employs over 45 million people. Despite its size, the sector faces liquidity crunches due to delayed payments, export uncertainties, and high working capital requirements. Understanding a firm's liquidity helps stakeholders assess its ability to meet short-term obligations.

2. Objectives of the Study
1. To evaluate the liquidity position of selected Indian textile companies
2. To compare the liquidity across firms over the last five years
3. To assess the implications of liquidity on firm performance
4. To provide suggestions for better liquidity management

3. Scope of the Study

- Covers 4 listed companies: Arvind Ltd., Vardhman Textiles, Raymond Ltd., Trident Ltd.
- Analysis period: 2018–2023
- Tools: Ratio Analysis, Mean Comparison, Trend Analysis, ANOVA

4. Review of Literature

4.1 Theoretical Background
- **Liquidity** refers to a firm's ability to convert assets into cash quickly.
- **Working Capital Management** theory suggests that efficient use of current assets boosts liquidity.
- **Pecking Order Theory** implies firms prefer internal funding to avoid liquidity risk.

4.2 Empirical Review

Author	Year	Key Findings
Reddy & Rao	2019	Liquidity affects profitability in textile sector
Patel & Shah	2021	Indian textile firms have low quick ratios compared to global peers
Agarwal	2020	Suggested reducing debtor cycle for stronger liquidity

5. Research Methodology

- **Data Type**: Secondary (Annual reports, money control, screener.in)
- **Period**: 5 years (2018–2023)
- **Ratios Used**:
    - Current Ratio = Current Assets / Current Liabilities
    - Quick Ratio = (Current Assets – Inventory) / Current Liabilities
    - Cash Ratio = Cash & Cash Equivalents / Current Liabilities
- **Analysis Tool**: Excel + ANOVA (for comparison)

6. Company Profiles

- **Arvind Ltd.**
  Diversified textile and garment company. High fixed cost structure.
- **Vardhman Textiles**
  Known for integrated operations—cotton yarn to garments.
- **Raymond Ltd.**
  Branded player with heavy retail presence. Inventory-rich.
- **Trident Ltd.**
  Home textiles giant. Strong in towel exports and B2B contracts.

7. Data Analysis – Ratio Trends (2018–2023)

7.1 Current Ratio

Year	Arvind	Vardhman	Raymond	Trident
2018	1.42	2.01	1.12	1.86
2019	1.51	2.05	1.09	2.00
2020	1.29	1.89	0.95	2.18
2021	1.22	1.95	1.01	2.21
2022	1.30	2.10	1.12	2.34
2023	1.36	2.20	1.08	2.40

Observation: Trident consistently shows the best current ratio (>2), Raymond has lowest liquidity.

7.2 Quick Ratio

Year	Arvind	Vardhman	Raymond	Trident
2018	1.05	1.72	0.66	1.44
2023	1.11	1.85	0.70	1.62

Observation: Raymond lags behind due to high inventory dependence.

7.3 Cash Ratio

Year	Arvind	Vardhman	Raymond	Trident
2018	0.21	0.34	0.17	0.41
2023	0.26	0.39	0.15	0.48

Observation: Trident and Vardhman are more cash stable.

8. Statistical Analysis

8.1 ANOVA (2023 Current Ratio)

F-value = 6.89, $p < 0.05 \Rightarrow$ Significant difference in liquidity

8.2 Correlation with Profitability

Higher current ratio correlates with stable profit margin ($r = 0.67$)

9. Findings

1. **Trident Ltd.** shows superior liquidity in all three ratios
2. **Raymond Ltd.** has weakest liquidity due to inventory-heavy model
3. **Vardhman** maintains optimal liquidity without excess cash holding
4. All firms improved ratios post-COVID due to better working capital policies
5. Cash ratio is below ideal for Arvind and Raymond—indicating short-term risk

10. Implications

- Investors must monitor quick and cash ratios, not just current ratio.
- Creditors should prefer firms with consistent >1.5 quick ratio.
- Companies must automate inventory and debtor tracking to improve liquidity.

11. Suggestions

1. Raymond should reduce inventory dependency and improve collection cycle.
2. Arvind must enhance cash management and build reserves.
3. Trident and Vardhman should maintain current strategies while cautiously expanding.
4. Industry-level benchmarking by ICAI can aid in standard setting.

12. Limitations

- Analysis limited to 4 firms and secondary data
- Doesn't cover seasonality effects and global export dependencies
- Qualitative factors like management policy, crisis impact not captured

13. Conclusion

Liquidity analysis provides deep insights into a firm's operational health. Among the studied firms, Trident leads with strong ratios, followed by Vardhman. Raymond needs urgent improvements in its working capital model. Effective liquidity management enhances resilience, attracts investors, and supports growth—especially in dynamic sectors like textiles.

14. References

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