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A STUDY ON FACTORS AFFECTING THE CAPITAL STRUCTURE OF THE TEXTILE INDUSTRY

Dr. S. Umadevi
Assistant Professor, PG and Research Department of Commerce CA, Kaamadhenu Arts and Science College, Sathyamangalam, Tamilnadu

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Abstract:

The capital structure is the barometer of the textile industry. The main aim of the study is to evaluate the significance of factors affecting the capital structure in planning textile industry .this study is a descriptive research. This study contains a secondary data of textile industry from 2015 to 2017 period. The financial data of the textile industry have been collected from website of money control, morning star, finance, yahoo. The collected data has been analysed using multiple regression. The study founded that growth, profitability, stability and marketability are the factors affecting the capital structure of the textile industry. The findings of the study would help the industry in making a linkage between the capital structure and factors affecting the textile industry.

Key Words: Textile, Industry, Capital, Structure, Market, Planning, Financial, System Etc.,

Introduction:

The textile industry in India traditionally, after agriculture, is the only industry that has generated huge employment for both skilled and unskilled labor in textiles. The textile industry continues to be the second largest employment generating sector in India. It offers direct employment to over 35 million in the country.

The capital structure is the barometer of the textile industry. It is the vital system of the financial system of any industry. A financial structure, debt, equity, loans, advances, cash market or share market is the aggregation of capital structure. Capital structure planning is one of the most important ways for companies to raise money, along with debt markets which are generally more imposing but do not trade publicly. This allows industry to be publicly traded, and raise additional financial capital for expansion by selling shares of ownership of the industry in a public market. The liquidity that an exchange affords the investors enables their holders to quickly and easily sell securities. Some textile industry actively increase liquidity by trading in their own shares. Fashion have bought tremendous changes in the development of capital structure of the textile industry. History has shown that the price of stocks and other assets is an important part of the planning the capital structure, and can influence or be an indicator of social mood.

The capital structure is often considered the primary indicator of a textile industry economic strength and development. Rising share prices, for instance, tend to be associated with increased business investment and planning the capital structure. The smooth functioning of all these activities facilitates economic growth in that lower costs and industry risks promote the production of goods and services as well as possibly employment. In this way the capital structure is assumed to contribute to increased prosperity, although some controversy exists as to whether the optimal financial system is bank-based or market-based.

Statement of the Problem:

Textile industry is facing many risks in investing and building their capital structure. There are many risks involved in building capital structure of a textile industry in a market among the competition and fashion world. If a capital structure is planned correctly it will be helpful for the industry to plan for their present and future ideas. So that building the capital structure plays a major role in textile industry.

Objectives:

- To find out the factors affecting the capital structure of Textile Industry.
- To evaluate the significance of factors affecting the capital structure in planning Textile Industry.

Limitations of the Study:

- This study is confined to the extent of interpreting the data is collected only from Textile Industry.
- This study based on the historical data and information provided in the annual reports.
- The entire financial position of the Textile Industry cannot be disclosed.

Review of Literature:

Cinde Ririh Windayu (2016), determined the influence simultaneously and partially on these factors. The sample population taken for the study was textile and garment companies listed in Indonesia Stock Exchange in 2004-2008. The study is based on secondary data and purposive sampling method was used. The collected data has been analysed using multiple linear regressions test. The study showed that the size of the

company, industry characteristics, sales growth, asset structure and profitability is partially effecting on the capital structure, while the operating leverage and Non- debt Tax Shield has no effect on the capital structure.

Shafie Mohamed Zabri and Khaw Khai Wah (2016) focused on corporate governance practices among Top 100 public listed companies in Bursa Malaysia. Descriptive and correlation analysis were used to examine the hypotheses in this study. There were two objectives established which were (1) to investigate the corporate governance practices among Top 100 listed companies, and (2) to study the relationship between corporate governance and firm performance. The first objective was achieved by using descriptive analysis whereas the second objective which consisted of four hypotheses was achieved by using correlation analysis.

Aysha Ashraf and Sonia Rezina (2020), recognized the major factors influencing the capital structure of the textile firms and to identify the association among them from the context of Bangladesh. The study reviewed different conditional theories of capital structure before evaluating the textile firms. The study was analysed using multiple regression models for the period 2008 to 2017. The study showed that profitability; firm size and liquidity have significant positive relationship with the debt ratio. The study founded that this study will help the financial managers to make the right decisions on fund borrowing and equity financing.

Research Methodology:

The study aims to show how the institutional and factors affecting the capital structure of Textile industry. For the research purpose, factors are identified and grouped. Group of factors are "Macro-economic Variables", factors affecting the capital structure of Textile industry. They are Growth, Profitability, Marketability and Stability. This study is a descriptive research. This study contains a secondary data of Textile Industry from 2017 to 2021 period. The financial data of the Textile Industry have been collected from website of money control, morning star, finance, yahoo.

Textile Sector
1. Phoenix Mills
2. Raymond Textiles
3. LMW – Lakshmi Machine Works Ltd

Multiple Regression Analysis:

Multiple regression analysis is a powerful technique for building the unknown value of a variable from the known value of two or more variables also called as predictors. In general, the multiple regression equation of Y on x_1, x_2, x_3…

Equation would be $Y = C + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4$

Y = Capital (Dependent Variable)
C = Constant
X_1 = Growth
X_2 = Profitability
X_3 = Liquidity
X_4 = Marketability

Analysis and Interpretation:

Table 1: Multiple regression value for of Textile sector

Company	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
LMW	0.42	.176	.163	.02122	.176	13.673	4	256	.000
Pheonix Mills	0.885	.784	.781	14.28207	.784	232.149	4	256	.000
Raymond	0.848	.719	.715	16.44409	.719	164.049	4	256	.000

Table No 1 shows that model summary R representing the multiple correlation coefficient, shows the linear correlation between all the independent and dependent variables. The maximum the value of R, there will be a strong relationship between the capital structure of a firm and criterion variables. In this, the value of R is .885, which is high, representing a correlation among the variables. R- Square is a square is a squared value of multiple correlation coefficients. The value of R- square is .781, which depicts that 78.1 % of the variance in Capital structure of a firm can be done through Growth, Profitability, Stability and Marketability.

Similarly for the Industries in this sector like LMW, RAYMOND.

Table 2: Coefficients of Textile sector

Industry	Factors	Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
LMW	(Constant)	.365	.118		3.091	.002
	Growth	4.372E-06	.000	.054	.943	.347
	Profitability	.001	.001	.069	1.071	.285
	Stability	-.001	.000	-.240	-1.991	.048

	Marketability	.002	.002	.155	1.231	.219
Phoenix	(Constant)	1005.466	79.456		12.654	.000
	Growth	.008	.003	.075	2.551	.011
	Profitability	-3.775	.446	-.280	-8.457	.000
	Stability	.745	.197	.234	3.777	.000
	Marketability	-9.075	1.146	-.510	-7.916	.000
Raymond	(Constant)	1982.036	91.484		21.665	.000
	Growth	-.001	.004	-.013	-.394	.694
	Profitability	-.397	.514	-.029	-.772	.441
	Stability	-1.638	.227	-.508	-7.208	.000
	Marketability	-22.388	1.320	-1.245	-16.960	.000

Table 2 depicts the coefficients between variables when multiple regression analysis is applied. Beta coefficient reflects the change in the dependent variable for each unit change in the independent variable. It can be used to compare the relative strength of various predictors within the model. Larger will be the beta coefficient, the smaller will be the significant level.

As per the table 4.46, LMW - Growth (Beta = .054, p > 0.01), Profitability (Beta = .069, P > 0.01), Stability (Beta = -.240 p > 0.01) and Marketability (Beta = .155 p > 0.01) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between Growth, Profitability, Stability, Marketability and planning the Capital structure of a firm.

As per the table 4.46, PHOENIX MILLS - Growth (Beta = .075, p > 0.01), Profitability (Beta = -.280, P > 0.01), Stability (Beta = .234 p > 0.01) and Marketability (Beta = -.510 p > 0.01) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between Growth and Capital structure and there is no relationship between Profitability, Stability and Marketability in planning the Capital structure of a firm.

As per the table 4.46, RAYMOND - Growth (Beta = -.013, p > 0.01), Profitability (Beta = -.029, P > 0.01), Stability (Beta = -.508 p > 0.01) and Marketability (Beta = -1.245 p > 0.01) has largest beta coefficient which is statistically significance at the 1% and 0.1 % significance level. There is a relationship between Growth, Profitability and Capital structure and there is no relationship between Stability and Marketability in the Capital structure of a firm

Findings of the Study:

- The value of R is highly predictable for the Industries like Phoenix Mills and Raymond with Growth, Profitability, Stability and Marketability. The value of R is predictable for the Industries like LMW with Growth, Profitability, Stability and Marketability.
- In LMW, there is a relationship between Growth, Profitability, Stability, Marketability and Capital structure in planning the Capital structure of a firm.
- In Phoenix Mills, there is a relationship between Growth, and Capital structure and there is no relationship between Profitability, Stability and Marketability in planning the Capital structure of a firm
- In Raymond, there is a relationship between Growth, Profitability and Capital structure and there is no relationship between Stability and Marketability in planning the Capital structure

Conclusion:

The study would be quite useful in understanding the relationship between the Capital structure of textile industry and factors like Growth, Profitability, Stability, Marketability. The study would help the industry in taking rational investment decisions considering the changes in the scenario of the textile industry. The market is influenced by various micro and macro factors, which affect the textile industry stock prices to a great extent. The findings of the study would help the industry in making a linkage between the capital structure and factors affecting the textile industry.

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