

Impact Of Financial Crisis On The Textile Industry Of Pakistan: A Case Study Of Fateh Textile Industry

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Abstract: After the great depression of 1930s, financial crisis of 2007-09 were most serious. Due to these financial crises large financial crisis collapsed, key businesses failed & wealth of consumer has been lost. Pakistan can not be the exceptional case in this regard. The key industry of Pakistan – textile industry suffered huge financial losses in that period. This study is conducted to assess the impact of financial crisis on the textile sector of Pakistan. For this purpose a case study of Fateh Textile industry is carried out. Data was collected from the internal sources-fateh textile industry's records-as well as from external sources-Pakistan Economic Survey. Data was analyzed through vertical analysis i.e. Common size balance sheet analyses, Common size Income statement analysis, and through ratios - Liquidity Ratios, Asset Management Ratios, Debt Management Ratios and Profitability Ratios. Common size income statement analysis and profitability measuring ratios confirmed that Fateh textile industry earned higher profits before the financial crisis & financial crisis deteriorated the earning capacity of this industry. Common size balance sheet analyses showed that after financial crisis Fateh textile industry was lowly leveraged, which deprived the owners of high rate of return. Debt management ratio analyses proved that creditors provided lesser amount in financing after financial crisis as compared to before crisis. Liquidity ratio proved that debt retiring ability of fateh textile industry declined after financial crisis. Inventory turnover analysis showed that Fateh textile industry was more efficient in managing and selling the inventory before the financial crisis than after the crisis. Days Sales outstanding analysis indicated that after the financial crisis the average time period for the collection of receivables increased too much which meant that Fateh Textile industry faced problems in collection of receivables after crisis. Fixed Asset Turnover ratio analysis proved that fixed assets were managed poorly and were being used unproductively after financial crisis. This indicated that there were low sales in fateh textile industry after financial crisis as compared to before financial crisis period. The results yielded by the fixed asset turnover ratio analysis indicated that Fateh had greater efficiency in using assets to produce sales before financial crisis than after financial crisis.

Key words: Financial Crisis, Textile industry, vertical analysis, ratios, financial leverage.

INTRODUCTION

Textile industry is considered as the main industry for the economy of Pakistan because of these three reasons: It has backward linkage with the agricultural sector; it is the biggest manufacturing industry of the country, and it is the high export interest enterprises (Mohammad, 2008). Contribution of textile industry in the economy of Pakistan is depicted in following table:

Table 1: Textile Industry's Contribution 2005 2009

Years	2005-06	2006-07	2007-08	2008-09
Share in Export	63%	61%	54%	54%
Share in GDP	9%	8.5%	8.5%	8.5%
Share in Employment	38%	38%	39%	38%
Share in Manufacturing	46%	46%	46%	46%

Source: Textile Commissioners Organization

Financial Crisis:

Finance means raising the cash for doing business. At macro level "finance" is the practical application of economics. Economy of a country allocates money to different profitable projects through financial systems. Financial crises badly affect the flow of finance & thus negatively affect the performance of economy.

Financial crisis occur due to loss of the value of financial institutions and/or assets, banking panics, stock market crashes, bursting of financial bubbles, currency crisis and sovereign defaults. They always result in the decrease of wealth of people. After the great depression of 1930s, which resulted from the crash of Wall Street in 1929, the recent financial crises of 2007-09 are of the worst type. These crises emerged from the failure of large financial institutions of USA and then spread all over the world.

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Impact of Financial Crisis on Economy:

Due to financial crises economy can not allocate money properly to its highest valued use.

Financial crises resulted in the collapse of large financial institutions, European bank failures, sharp decline in the market indices, weakening currencies, reduction in exports, decline in foreign direct investment, decline in remittances & tourism, unemployment & poverty. All these will result, ultimately, in slow down of economic growth.

Objectives:

The main objectives of the study are;

1. Find out the reasons of low profits in textile industries.
2. Evaluate the availability of the loans for textile industry.

Hypotheses:

Following three Hypotheses have been designed for this research.

1. Financial Crisis decreases the profits of the textile sector.
2. Financial crisis decreases the availability of the loans for the textile sector.
3. Financial crisis decline the overall financial performance of the textile sector

MATERIAL AND METHODS

This study has evaluated Fateh textile industries- Fateh from Profits & Availability of the loans point of view, before and after 2007-08. Data for this study was collected through secondary source of data collection. Both internal & external sources of secondary data collection were used. Internal source of data collection was the accounting records of Fateh Textile Industry & external sources of data collection were Pakistan Economic Survey & Pakistan Statistical Survey.

Data Analysis:

Data is analyzed through common size vertical analysis of balance sheet & income statement of Fateh textile industry. Ratio analyses are also used to measure the liquidity, Asset management, Debt management & Profitability of the industry.

Table 2: Income Statement of Fateh Textile Industry

ASSETS=LIABILITIES+ OWNERS' EQUITY	2004	2005	2006	2007	2008	2009
ASSETS						
Liquid Assets=Cash +Investment	582.8	548.5	567.1	585.0	538.6	535.4
Cash	59.1	24.8	40.6	56.9	12.6	11.0
Investment	523.7	523.7	526.5	528.1	526.0	525.4
Other Current Assets	2750.2	2511.6	2582.6	2768.1	4089.3	5214.4
Inventories	2267.8	2492.3	2114.2	2267.6	2125.6	1761.6
Total Current Assets	5600.8	5552.4	5263.9	5620.7	6753.5	7511.4
Fixed Assets after Deducting Accumulated Deprecation	1282.5	1282.4	2466.7	2300.1	2140.1	2108.2
	<u>6883.3</u>	<u>6834.8</u>	<u>7730.6</u>	<u>7920.8</u>	<u>8893.6</u>	<u>9619.6</u>
TOTAL ASSETS						
LIABILITIES						
	3201.1	3179.4	3052.9	3494.4	4680.5	5672.9
Current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Preference Share	0.0	0.0	0.0	0.0	0.0	0.0
Debenture	2055.8	1951.1	1865.2	1644.9	1501.5	1263.8
Other Fixed Liabilities						
	5256.9	5084.5	4918.1	5139.3	6182.0	6936.7
TOTOL LIABILITIES						
OWNER EQUITY						
	12.5	12.5	12.5	12.5	12.5	12.5
Ordinary Share Capital	1613.9	1737.8	2800.0	2769.0	2699.1	2670.4
Surplus						
	1626.4	1750.3	2812.5	2781.5	2711.6	2682.9
OWNEREQUITY						
LIABILITIES+OWNEREQUITY	<u>6883.3</u>	<u>6834.8</u>	<u>7730.6</u>	<u>7920.8</u>	<u>8893.6</u>	<u>9619.6</u>

YEARS	2004	2005	2006	2007	2008	2009
Net Sales	7631.2	5919.7	6730.7	6343.5	4794.2	3051.0
Cost of Good Sold	<u>6720.7</u>	<u>5285.0</u>	<u>6063.8</u>	<u>5799.3</u>	<u>4350.4</u>	<u>2971.8</u>
Gross Profit	910.5	634.7	666.9	544.2	443.8	79.2
Overhead Other Cost	<u>259.5</u>	<u>204.3</u>	<u>216.4</u>	<u>82.9</u>	<u>0.161</u>	<u>32.5</u>
Operating Profit(EBIT)	651.0	430.4	450.5	461.3	427.7	46.7
Less Interest	<u>418.6</u>	<u>290.3</u>	<u>311.8</u>	<u>359.6</u>	<u>390.1</u>	<u>7.6</u>
E.B.T	232.4	140.1	138.7	101.7	37.6	39.1
Tax	<u>38.0</u>	<u>32.0</u>	<u>38.0</u>	<u>51.0</u>	<u>29.5</u>	<u>5.0</u>
Net Income Before Preferred Dividend	199.4	108.1	100.7	50.7	08.1	34.1
Net Income Available to Common Share holders	<u>194.4</u>	<u>108.1</u>	<u>100.7</u>	<u>50.7</u>	<u>08.1</u>	<u>34.1</u>
ASSETS=LIBILITIES+OWNEREQUITY	2004	2005	2006	2007	2008	2009
ASSETS						
Liquid Assets=cash+ Investment	8.47	8.025	7.336	7.385	6.056	5.565
cash	0.86	0.363	0.525	0.718	0.142	0.114
Investment	7.61	7.662	0.811	6.667	5.914	5.451
Other Current Assets	39.95	36.75	33.407	34.947	45.98	54.206
Inventories	32.95	36.465	27.349	28.628	23.98	18.31
Total Current Assets	81.37	81.24	68.092	70.96	75.936	78.08
Fixed assets After Deducting Accumulated Deprecation	18.63	18.76	31.908	29.04	24.064	21.92
TOTAL ASSETS	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
LIABILITIES						
Current liabilities	46.51	46.519	39.491	44.12	52.627	58.97
Preference Share	0.00	0.00	0.00	0.00	0.00	0.00
Debenture	0.00	0.00	0.00	0.00	0.00	0.00
Other Fixed Liabilities	29.86	27.873	24.128	20.767	16.883	13.14
TOTOL LIABILITIES	76.37	74.392	63.619	64.883	69.51	72.11
OWNER EQUITY						
Ordinary Share Capital	0.186	0.1828	0.1616	0.1578	0.1406	0.1299
Surplus	23.447	25.425	36.219	34.959	30.35	27.759
OWNEREQUITY	23.63	25.608	36.381	35.117	30.49	27.89
LIABILITIES+OWNEREQUITY	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Common Size Balance Sheet Analyses:

The common size balance sheet analysis of Fateh Textile Industry shows that current assets in year 2004 were Rs 81.7 million, in year 2005 Rs 81.24 million, in 2006 Rs 68.09 million, in 2007 Rs 70.96 million, in 2008 Rs 75.93 million and in 2009 they amounted to Rs 78.08 million. This shows the adverse effect of financial crisis on the current assets.

If we look at the availability of fixed liabilities they were of Rs 29.86 millions in 2004, Rs 27.86 million in 2005, Rs 24.12 million in 2006, Rs 20.76 million in 2007, Rs 16.88 million in 2008 and Rs 13.14 million in 2009. This shows that financial crisis reduced the availability of the finance as a loan in the economy. Owners' Equity for different years was as: Rs 23.63 million in 2004, Rs 25.60 million in 2005, Rs 36.38 million in 2006, Rs 35.11 million in 2007, Rs 30.49 million in 2008 and Rs 27.89 million in 2009. This means that because of financial crisis owners have to inject more of their capital in the organization.

Common Size Income Statement Analyses:

Net income earned by Fateh textile industry was Rs 194.4 million in 2004, Rs 108.1 million in 2005, Rs 100.7 million in 2006, Rs 50.7 million in 2007, Rs 08.1 million in 2008 and Rs 34.1 million in 2009. This shows that fateh textile industry was earning higher profits before the financial crisis. This also confirms that financial crisis have deteriorated the earning capacity of this industry.

Ratios Analysis:**Liquidity Ratios:****Current Ratio:**

Formula: Current Ratio = (Current Assets / Current Liabilities)

Years	(Current Assets/Current liabilities)	=	Current Ratio
2004	(5600.8/3201.1)	=	1.749 times
2005	(552.4/5263.9)	=	1.746 times
2006	(5263.9/3052.9)	=	1.72 times
2007	(5620.7/3494.4)	=	1.6 times
2008	(6753.5/4680.5)	=	1.44 times
2009	(7511.4/5672.9)	=	1.32 times

Current ratio shows that in year 2004 fateh textile industry had Rs 1.749 in current assets for every Rupee in current liabilities. In year 2005 there was Rs 1.746 of current assets for one rupee of liability. In year 2006 the ratio was Rs 1.72 for Re 1 liability, In 2007 Rs 1.6 for Re 1 liability, in 2008 Rs 1.44 for Re 1 liability and in 2009 there was Rs 1.32 in current assets for every rupee in current liability. This shows that the debt retiring ability of fateh textile industry declined after financial crisis.

Asset Management Ratios or Activity Ratios:**Inventory Turnover Ratio:**

Formula: Inventory Turnover = (Sales/Inventories)

Years	(Sales/Inventories)	=	Inventory Turnover
2004	(7631.2/2267.8)	=	3.37 times
2005	(5919.7/2492.3)	=	2.38 times
2006	(6730.7/2114.2)	=	3.18 times
2007	(6343.5/2267.6)	=	2.89 times
2008	(4794.2/2125.6)	=	2.26 times
2009	(3051.0/1761.6)	=	1.73 times

Inventory turnover of Fateh textile industry in year 2004 was 3.37 times, in 2005 it was 2.38, in 2006 it was 3.18, in 2007 it was 2.89, in 2008 it was 2.26 and in 2009 it was 1.73. This clearly shows that Fateh textile industry was more efficient in managing and selling the inventory before the financial crisis than after the crisis.

Days Sales Outstanding (DSO)/ (ACP):

Formula: DSO = Days Sales Outstanding = (Receivables/ (Annual Sales/360))

Years	(Receivables/(Annual Sales/360))	=	DSO
2004	(2750.2/ (7631.2/360))		
	(2750.2/21.1977)	=	129Days
2005	(2511.6/ (5919.7/360))		
	(2511.6/ 16.44)	=	152 Days
2006	(2582.6/ (6730.7/360))		
	(2582.6/ 18.696)	=	138Days
2007	(2768.1/ (6343.5/360))		
	(2768.1/17.6)	=	157Days
2008	(4089.3/ (4794.2/360))		
	(4089.3/13.317)	=	307Days
2009	(5214.4/ (3051.0/360))		
	(5214.4/8.475)	=	615Days

In year 2004 Fateh Textile industry took 129 days to convert receivables into cash. In 2005 152 days and in 2006 138 days were taken for the same purpose. After the financial crisis the average time period for the collection of receivables was 157, 307 and 615 days for 2007, 2008 and 2009 years respectively. This shows that Fateh Textile industry faced problems in collection of receivables after crisis.

Fixed Assets Turnover:**Formula:** Fixed Assets Turnover Ratio = (Sales/Net Fixed Assets)

Years	(Sales/Net Fixed Assets)	=	Fixed Assets Turnover
2004	(7631.2/1282.5)	=	5.95 times
2005	(5919.7/1282.4)	=	4.6 times
2006	(6730.7/6730.7)	=	2.7 times
2007	(6343.5/2300.1)	=	2.7 times
2008	(4794.2/2140.1)	=	2.2 times
2009	(3051.0/2108.1)	=	1.4 times

A fixed turnover of 5.95 in year 2004 shows that Fateh Textile Industry generated Rs 5.95 in net sales for every rupee in fixed assets. Rs 4.6 in net sales were generated in 2005 for every rupee in fixed assets and Rs 2.7 in 2006. After financial crisis the fixed turnover of 2.7 for 2007, 2.2 for 2008 and 1.4 for 2009 proves that fixed assets were managed poorly and were being used unproductively. This also indicates that there were low sales in Fateh textile industry after financial crisis as compared to before financial crisis period.

Total Assets Turnover:**Formula:** Total Assets Turnover Ratio = (Sales/Total Assets)

Years	(Sales/Total Assets)	=	Total Assets Turnover
2004	(7631.2/6883.3)	=	1.1 times
2005	(5919.7/6834.8)	=	0.86 times
2006	(6730.7/7730.6)	=	0.87 times
2007	(6343.5/7920.8)	=	0.8 times
2008	(4794.2/8893.6)	=	0.5 times
2009	(3051.0/9619.6)	=	0.3 times

The total asset turnover of Rs 1.1 in 2004, Re 0.86 in 2005, Re 0.87 in 2006, Re 0.8 in 2007, Re 0.5 in 2008 and Re 0.3 in 2009 indicate that that much amount of sales was generated per rupee of investment in total assets. These figures indicate that Fateh had greater efficiency in using assets to produce sales before financial crisis than after financial crisis.

Debt Management Ratios:**Total Debt to Total Asset:****Formula:** Debt Ratio = (Total Debt/ Total Assets)

Years	(Total Debt/ Total Assets)	=	Debt Ratio
2004	(5256.9/6883.3)	=	76%
2005	(5084.5/6834.8)	=	74%
2006	(4918.2/7730.6)	=	64%
2007	(5139.3/7920.8)	=	65%
2008	(6182.0/8893.6)	=	69%
2009	(6936.7/9619.9)	=	72%

The Debt ratio of 76% in 2004 indicates that 76% of the assets were financed by the debt. In year 2005 74% of total assets were financed by debt, in 2006 64% of total assets were financed by debt. In 2007 65%, in 2008 69% and in 2009 72% of total assets were financed by debt. This clearly indicates that after financial crisis Fateh textile industry was lowly leveraged, which may deprive the owners of high rate of return.

Debt -to -Equity Ratio:**Formula:** Debt -to- Equity Ratio= (Debt -to -Asset 1-Debt -to -Assets)

Year	(Debt -to- Assets/1-Debt -to- Assets)	=	Debt- to- Equity
2004	(0.76/1-0.76)	=	3.17%
2005	(0.74/1-0.74)	=	2.85%
2006	(0.64/1-0.64)	=	1.78%
2007	(0.65/1-0.65)	=	1.865
2008	(0.69/1-0.69)	=	2.2%
2009	(0.72/1-0.72)	=	2.6%

Fateh Textile Industry s' debt equity ratio indicates that creditors provide Re 0.031 in financing for every rupee contributed by the owners in 2004, the ratio is Re 0.028 in 2005, Re 0.017 in 2006, Re 0.018 in 2007 , Re 0.022 in 2008 and Re 0.026 in 2009. This proves that creditors provided lesser amount in financing after financial crisis as compared to before crisis.

Profitability Ratios:**Gross Profit Margin:****Formula:** Gross Profit Margin = (Gross Profit (Sales- Cost of Goods Sold)/Sales)

Year	(Gross Profit/ Sales)	=	Gross Profit Margin
2004	(910.5/7631.2)	=	12%
2005	(634.7/5919.7)	=	11%
2006	(666.9/6730.7)	=	10%
2007	(549.1/6343.5)	=	9%
2008	(4438/4794.2)	=	9%
2009	(79.2/3051.0)	=	3%

The results show that in 2004 Fateh earned 12 paisa from each rupee of sales after deducting cost of goods sold. In 2005 it earned 11 paisa, 10 paisa in 2006, 9 paisa in 2007, again 9 paisa in 2008 and only 3 paisa in 2009. Again it is clear that after financial crisis gross profit margin declined.

Return on Total Assets (ROA) or ROI):**Formula:** ROA = (Net Income/ Total Assets)

Years	(Net Income/ Total Assets)	=	ROA
2004	(194.4/6883.3)	=	2.8%
2005	(108.1/6834.8)	=	1.6%
2006	(100.7/7730.6)	=	1.3%
2007	(50.7/7920.8)	=	0.64%
2008	(0.81/8893.6)	=	0.009%
2009	(34.1/9619.90)	=	0.35%

DuPont Formula:**Return on Total Assets (ROA) or (ROI):****Formula:** ROA= (Profit Margin*Total Assets Turnover) ROA = (Net Income /Sales)*(Sales/ Total Assets)

Years	(Net Income/ Sales)*(Sales/ Total Assets)	=	ROA
2004	(194.4/7613.2)*(7613.2/6883.3)	=	2.8%
	(2.5)*(1.1)	=	
2005	(108.1/5919.7)*(5919.7*6834.8)	=	1.6%
	(1.8)*(0.86)	=	
2006	(100.7/6730.7)*(6730.7/7730.6)	=	1.3%
	(1.58)*(0.870)	=	
2007	(50.7/6343.5)*(6343.7/7920.8)	=	0.64%
	(0.79)*(0.8)	=	
2008	(08.1/4794.2)*(4794.2/8893.6)	=	0.0095%
	(0.01690)*(0.5)	=	
2009	(34.1/3051.0)*(3051.0/9619.6)	=	0.35%
	(1.1)*(0.3)	=	

The results show that 2.8% profits were generated from the total investments in assets of Fateh in 2004. These profits were 1.6% in 2005, 1.3% in 2006, 0.64% in 2007, 0.009% in 2008 and 0.35 % in 2009. These results also confirm that financial crisis resulted in the overall ineffectiveness and mismanagement of the total assets.

Return on Common Equity (ROE):**Formula:** ROE= (Net Income/ Common Equity)

Years	(Net Income/ Common Equity)	=	ROE
2004	(194.4/1626.4)	=	11.95 %
2005	(108.1/1750.2)	=	6.17 %
2006	(100.7/2812.5)	=	3.58 %
2007	(50.7/2781.6)	=	1.8%
2008	(0.81/2711.7)	=	0.029%
2009	(34.1/2682.9)	=	1.27%

DuPont Formula:**Return on Equity (ROE):****Formula:** ROE=(ROA*Equity Multiplier) ROE=(Net Income/Total Assets)*(Total Assets/ Common Equity)

Years	(Net Income/ Total Assets)*(Total Assets/Common Equity)	=	ROE
2004	(194.4/688.3)*(6883.3/1626.4)		

	(2.82)*(4.2.32)	=	11.95%
2005	(108.1/6834.8)*(6834.3/1750.2)		
	(1.6)*(3.9)	=	6.17%
2006	(100.7/7730.6)*(7730.6/2812.5)		
	(1.3)*(2.75)	=	3.58%
2007	(50.7/7920.8)*(7920.8/2781.6)		
	(0.64)*(2.85)	=	1.8%
2008	(0.81/8893.6)*(8893.6/2711.7)		
	(0.009)*(3.28)	=	0.029%
2009	(34.1/9619.9)*(9619.9/2682.9)		
	(0.354)*(3.56)	=	1.27%

Return on Equity (ROE):

Formula: ROE= (Profit Margin*Total Assets Turnover*Equity Multiplier)

ROE= (Net Income /Sales)*(Sales/Total Assets)*(Total Assets/Common Equity)

Years	(Net Income/ Sales)*(Sales/ Total Assets)*(Total Assets/Common Equity)	=	ROE
2004	(194.4/7631.2)*(7631.2/6883.3)*(6883.3/1626.4)		
	(25.47)*(1.11)*(4.232)	=	11.95%
2005	(108.1/5919.7)*(5919.7/6834.8)*(6834.8/1750.2)		
	(1.8)*(0.86)*(3.9)	=	6.2%
2006	(100.7/6730.7)*(6730.7/7730.6)*(7730.6/2812.5)		
	(1.5)*(0.87)*(2.75)	=	3.85%
2007	(50.7/6343.5)*(6343.5/7920.8)*(7920.8/2781.6)		
	(0.79)*(0.80)*(2.85)	=	1.8%
2008	(08.1/4794.2)*(4794.2/8893.6)*(8893.6/2711.6)		
	(0.169)*(0.5)*(3.28)	=	0.0295%
2009	(34.1/3051.0)*(3051.0/9619.9)*(9619.9/2682.0)		
	(1.12)*(0.137)*(0.3586)	=	1.27%

The results show that Fateh Textile Industry's stockholders earned a rate of return of 11.95% on their equity in 2004, 6.2% in 2005, 3.85% in 2006, 1.8% in 2007, 0.029% in 2008 and 1.27% in 2009. This again proves the ineffective performance of Textile industry after financial crisis.

RESULTS AND DISCUSSIONS

The analysis begins with the first hypothesis, in that hypothesis it was predicted that the profits of the textile industries declined after the financial crisis. This hypothesis was tested through common size income statement analysis and profitability measuring ratios. The results were: Net income earned by Fateh textile industry was Rs. 194.4 million in 2004, Rs 108.1 million in 2005, Rs 100.7 million in 2006, Rs 50.7 million in 2007, Rs 08.1 million in 2008 and Rs 34.1 million in 2009. These figures confirm that Fateh textile industry earned higher profits before the financial crisis & financial crisis deteriorated the earning capacity of this industry.

Profitability ratios were also calculated for measuring the profits of this industry. The gross profit margin ratio was: It earned 12 paise from each rupee of sales after deducting cost of goods sold in 2004. In 2005 it earned 11 paise, 10 paise in 2006, 9 paise in 2007, again 9 paise in 2008 and only 3 paise in 2009. Again it is clear that after financial crisis gross profit margin declined. Return on Assets ratio was: 2.8% profits were generated from the total investments in assets of Fateh in 2004. These profits were 1.6% in 2005, 1.3% in 2006, 0.64% in 2007, 0.009% in 2008 and 0.35 % in 2009. These results also confirm that financial crisis resulted in the overall ineffectiveness and mismanagement of the total assets. Results for Return on Equity were: The results show that Fateh Textile Industry's stockholders earned a rate of return of 11.95% on their equity in 2004, 6.2% in 2005, 3.85% in 2006, 1.8% in 2007, 0.029% in 2008 and 1.27% in 2009.

These figures again prove financial crisis badly affected the profits of the textile industry.

On the basis of these conclusions we reject the null hypothesis and accept the alternative hypothesis. i.e,

H0: Financial crisis does not decrease the profits of the textile industries.

H1: Financial Crisis decreases the profits of the textile industries.

In second hypothesis it was predicted that financial crisis decreases the availability of the loans for the textile sector. This hypothesis was tested through Common size balance sheet analysis and Debt management ratios.

Common size balance sheet analysis was: fixed liabilities were of Rs 29.86 millions in 2004, Rs 27.86 million in 2005, Rs 24.12 million in 2006, Rs 20.76 million in 2007, Rs 16.88 million in 2008 and Rs 13.14 million in 2009. This shows that financial crisis reduced the availability of the finance as a loan in the economy. Debt to Assets Ratio was: in 2004, 76% of the assets were financed by the debt. In year 2005, 74% of total assets were financed by debt, in 2006 64% of total assets were financed by debt. In 2007, 65%; in 2008, 69%

and in 2009, 72% of total assets were financed by debt. This clearly indicates that after financial crisis Fateh textile industry was lowly leveraged, which may deprive the owners of high rate of return. Debt to Equity Ratio was: creditors provided Re 0.031 in financing for every rupee contributed by the owners in 2004, the ratio is Re 0.028 in 2005, Re 0.017 in 2006, Re 0.018 in 2007, Re 0.022 in 2008 and Re 0.026 in 2009. This proves that creditors provided lesser amount in financing after financial crisis as compared to before crisis.

All these analyses prove that creditors provided lesser amount in financing after financial crisis as compared to before crisis. Therefore we will reject the null hypothesis and accept the alternative hypothesis.

H0: Financial crises do not decrease the availability of the loans for the textile sector.

H1: Financial crises decrease the availability of the loans for the textile sector.

In third hypothesis it was predicted that financial crisis decline the overall financial performance of the textile sector. This hypothesis was tested through liquidity ratio and asset management ratio.

The Liquidity Ratio was: Current ratio shows that in year 2004 Fateh textile industry had Rs 1.479 in current assets for every Rupee in current liabilities. In year 2005 there was Rs 1.746 of current assets for one rupee of liability. In year 2006 the ratio was Rs 1.72 for Re 1 liability, In 2007 Rs 1.6 for Re 1 liability, in 2008 Rs 1.44 for Re 1 liability and in 2009 there was Rs 1.32 in current assets for every rupee in current liability. This shows that the debt retiring ability of fateh textile industry declined after financial crisis. Asset Management ratios were: Inventory turnover of fateh textile industry in year 2004 was 3.37 times, in 2005 it was 2.38, in 2006 it was 3.18, in 2007 it was 2.89, in 2008 it was 2.26 and in 2009 it was 1.73. This clearly shows that Fateh textile industry was more efficient in managing and selling the inventory before the financial crisis than after the crisis. In 2004 Fateh Textile industry took 129 days to convert receivables into cash. In 2005 152 days and in 2006 138 days were taken for the same purpose. After the financial crisis the average time period for the collection of receivables was 157, 307 and 615 days for 2007, 2008 and 2009 years respectively. This indicates that Fateh Textile industry faced problems in collection of receivables after crisis. A fixed turnover of 5.95 in year 2004 shows that Fateh Textile Industry generated Rs 5.95 in net sales for every rupee in fixed assets. Rs 4.6 in net sales were generated in 2005 for every rupee in fixed assets and Rs 2.7 in 2006. After financial crisis the Fixed turnover of 2.7 for 2007, 2.2 for 2008 and 1.4 for 2009 proves that fixed assets were managed poorly and were being used unproductively. This also indicates that there were low sales in fateh textile industry after financial crisis as compared to before financial crisis period. The total asset turnover of Rs 1.1 in 2004, Re 0.86 in 2005, Re 0.87 in 2006, Re 0.8 in 2007, Re 0.5 in 2008 and Re 0.3 in 2009 indicate that that much amount of sales was generated per rupee of investment in total assets. These figures indicate that Fateh had greater efficiency in using assets to produce sales before financial crisis than after financial crisis.

The results of these ratios show that the overall performance of the textile sector was adversely affected by the financial crisis. On the basis of these findings we again reject null hypothesis and accept alternative hypothesis.

H0: Financial crises do not decline the overall performance of the textile sector.

H1: Financial crises have declined the overall performance of textile sector.

Conclusions:

- Financial crisis have deteriorated the earning capacity of the textile industries.
- Textile industries were lowly leveraged after financial crisis, which have deprived the owners of high rate of return.
- Financial crisis have also declined the overall performance of the textile industries. Their debt payment ability, management & sales of inventory, collection of receivables, management & productive capacity of fixed assets; all were badly affected by the financial crisis.

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