

Impact of financial crisis on the textile industry of pakistan: a case study of f...

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Journal of Basic and Applied Sciences, 5(10): 1435-1443, 2011 ISSN 1991-8178 Impact Of Financial Crisis On The Textile Industry Of Pakistan: A Case Study Of Fateh Textile Industry 1 Dr.

Zahid Ali Channar, 2Dr. Nanik Ram 1 Assistant Professor, Department of Management Sciences, Faculty of Commerce, Economics and Management Sciences, Isra University, Hyderabad, Sindh, Pakistan. 2 Assistant professor Department of economics, University of Sindh, Jamshoro pakistan. 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
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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

Years	Share in Export	Share in GDP	Share in Employment	Share in Manufacturing
2005-06	63%	9%	38%	46%
2006-07	61%	8.5%	38%	46%
2007-08	54%	8.5%	39%	46%
2008-09	54%	8.5%	38%	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. Corresponding Author: Dr. Zahid Ali Channar, Assistant Professor, Department of Management Sciences, Faculty

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Basic & Appl. Sci. , 5(10): 1435-1443, 2011 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. .

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.