

FINANCIAL PERFORMANCE EVOLUTIONS OF TEXTILE SECTOR ENTERPRISES

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The complete liberalization of international trade led to important changes in financial performances of the national enterprises. This paper has in view to present the consequences of these changes from the macroeconomic level to microeconomic level. Thus, indicators of the financial performance for three enterprises at the textile sector from Galati are studied selectively. The scope of this study is both to realize a financial performance hierarchy and to present of their evolution directions in the future.

Keywords: *financial performance, textile sector, intermediary balances, profitability, liquidity, solvency*

Introduction

Liberalization of the textile international market led to important changes in financial performances of the national enterprises. This paper represents the results of a more complex study of the financial performances realized on three enterprises at the textile sector from Galati. In the realization of this study I used the balance sheets at 2002, 2003 and 2004 of these enterprises of medium size from Galati, with the activity object "manufacture of other clothes articles". I must mention that the balance sheets were provided by Trade Register and General Direction of Public Finance and from confidentiality reasons I had to use fictive names.

International and national level tendencies in textile sector

The complete liberalization of the international trade with textile and clothes products had as effect the continuing and rising of the recent tendencies of the competition to the international level. Unfortunately, the mentioned tendencies represent serious threats that textile and clothes industry must allow for maintain and strengthen the position. The prefigured scenario is even more difficult for new members of the European Union that already had finished the transition period.

For competition evaluation in European Union must make allowance for those five big importers from European Union (Germany, France, Italy,

United Kingdom and Spain) and those 22 exporters to European Union: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania and Bulgaria; 4 south-Mediterranean countries associated to European Union: Turkey, Egypt, Tunisia and Morocco; 3 new industrialized countries from South – East Asia: Hong-Kong, South Korea and Taiwan; 5 Asian countries: China, Bangladesh, India, Indonesia and Pakistan.

The importation market of clothes articles and accessories is very big approximately totalized 54 billions euro or almost 4 millions tons. The increase of the imported quantities and parallel decrease of the values is due to the fall of the medium price in Euro. The first five countries comprise approximately 50% from total amount of imports. China is on the first position (28,9% from total imports expressed quantitatively), followed by Turkey in a strong second position. Romania, Bangladesh, Tunisia and India occupied the next positions [3].

The liberalization of textile international market and appreciation of national currency constitutes factors that move away the lohn from Romania, because since 1 January 2005 in cheap products way comes from Asia there wasn't any quote. If in the last ten years, the lohn was optimal survival solutions for national store-clothes industry, now the situation is changed because the big occidental

enterprises interested in lohn production get start to use the cheaper force of work from China and Thailand. In the next year is anticipated that 40 – 50% from enterprises that now working in lohn will go out of the market.

Also, for many factories that had worked in lohn, the euro depreciation since last years was finishing stroke because their products being sell in euro, the enterprises cashed fewer lei after the depreciation. The enterprises from this sector was obliged to reduce to limit the profit margin after the last currency evolutions, because of an increase of the manufactured products price can't be possible in this international context.

Thus, the conclusion is that will resist on the market: the enterprises that will conclude lohn contracts on small and medium series (generally, it is all about at articles of luxury, that can't be produced in Asia where usually arrive large contracts); the enterprises that will develop and creation centres and will can offer a larger value added to the products; the enterprises that will combine the lohn contracts on small series with the launching of own mark dedicated to national market. For an own mark are necessary large investments that will give results after many years.

The favourable financial results or specific capital market events maintain presented the textile store-clothes enterprises on the market, in attention of investors that had included in their portfolios. The textile industry assures at least a quarter of the Romanian exports, this domain being one from some few where our country registers a commercial excess. The main sale area of the enterprises products from this industry is European Union. Unfortunately, approximately 80% from the textile industry exports is realized in lohn, the contracts system that brings the commercial margin of these enterprises to the lower limit. Thus, the lohn didn't permit to these

enterprises to constitute resources that should give them possibility to realization of investments in modernising of product processes. More than that, many of these enterprises are micro-enterprises, with few employees and that for many times depends on a single client.

The store-clothes sector is represented on Rasdaq market by four enterprises: BRAICONF Braila, CONFECTII Vaslui, ASCO Bacau and CONFARG Curtea de Arges, which those actions are bargained using the technical platform of Bucharest Stock Exchange. This group leader is Braiconf Braila which has the biggest turnover and is in the investors attention for many years, thus only in 2004, the medium price of these stocks increased with 148%. And the stocks of the Confectii Vaslui enterprise had a very good evolution last year, but this was determined by the enterprise management intention to raise the authorised share capital by eight times through reserve incorporation.

To the Galati district level function many enterprises in the textile sector, but the most are small enterprises, fashion houses with some employees that shouldn't permitted me a pertinent financial analyse. Therefore, I proceeded to the selection of three enterprises, following that these enterprises be comparable related to the size and activity object. Thus, the selected enterprises are: Monizac Ltd., Filartex Ltd. and Fashion Ltd. – enterprises at medium size after the number of employees and that function in the textile sector.

Financial performance study on the base of intermediary administration balances

In this paper, I extracted selectively the intermediary administration balances in function of their relevance for the studied enterprises. These balances were calculated in comparable values since 2004, after can be followed in Table no. 1.

Table no. 1 – Intermediary administration balances in comparable values 2004

thousand RON

Current no.	Intermediary administration balances	MONIZAC Ltd.			FILARTEX Ltd.			FASHION Ltd.		
		2002	2003	2004	2002	2003	2004	2002	2003	2004
1.	Turnover	7.052	9.462	8.905	8.537	5.371	9.252	1.410	1.962	1.646
2.	Added value	5.003	5.293	3.450	1.786	1.300	2.547	563	1.345	1.142
3.	Operation gross profit	3.106	3.475	1.508	-270	-336	-105	59	308	221
4.	Current result	2.532	3.079	841	-487	-413	-786	37	204	31
5.	Extraordinary result	-	-	-	-149	-1.469	-	-	-	-
6.	Net results	2.353	2.643	569	-676	-2.038	-786	15	176	-14
7.	Self-financing capacity	2.936	2.961	805	-527	-1.968	-123	41	252	157

The turnover registered a fluctuating evolution (an increase of 34% in 2003 and a decrease of 6% in 2004 to Monizac Ltd., a 37% increase in 2003 and a 72% increase in 2004 to Filartex Ltd. and a 39% increase in 2003 and a 16% decrease in 2004 to Fashion Ltd.). In the analysed period, the turnover was due especially by sold production that had shares more than 99%. Only to Filartex Ltd. the sold production represented 70,50% in 2002, 87,77% in 2003 and 92,20% in 2004 – the trade activity bringing down the share step by step. Therefore, the enterprises obtain incomes especially from realized and sold production, this fact being anticipated and by the sector where they are developing activity – textile sector. It can be observed a drop of turnover to the Monizac Ltd. and Fashion Ltd. – the fact put in evidence by the registered evolutions to the international level in this field and a rise of the turnover to the Filartex Ltd. that realized investments in equipments and technology.

To the Monizac Ltd. and Fashion Ltd., *the added value* had a fluctuating trend (a 6% increase in 2003 and a 35% decrease in 2004 to the first enterprise and a 139% increase in 2003 and a 15% decrease in 2004 to the second enterprise). Although, in 2003, the increase in external consumption of 77% was much bigger than increase in exercise production (29%) to Monizac Ltd. and the added value had raised because in comparable absolute values the exercise production in 2002 was by 3,09 times bigger than external consumption. In 2004, the added value

decreased both a 4% fall in exercise production and a 35% rise in external consumption. The added value situation is approximately the same to the Fashion Ltd., in 2003 raised both a 38% rise in exercise production and a 29% fall in external consumption. In 2004, the added value decreased because a lower 16% fall in exercise production than a 17% fall in external consumption in the term of a comparable value for exercise production in 2003 was by 3,22 times bigger than comparable value of external consumption.

The added value to Filartex Ltd. had a fluctuating evolution (a decrease of 27% in 2003 and an increase of 95% in 2004). In 2003, the added value dropped both of a negative commercial margin and of a lower increase of 8% in exercise production than an increase of 19% in external consumption. In 2004, the added value raised both of the commercial margin that becomes positive and of a lower increase of 126% in exercise production than an increase of 142% in external consumption in the term of a comparable value for exercise production bigger with 30,91% bigger than external consumption, in 2003.

The operation gross profit registered an increase of 12% in 2003 confronted by 2002 to Monizac Ltd. and a decrease of 57% in 2004 confronted by 2003. In the first analysed period, this showed a rise of the potential monetary excess provided by operational activity while to the end of the analysed period these had sunk. The same evolution was registered and to the Fashion Ltd.: an increase of 5,22 times in 2003 and a decrease of 28% in 2004. To Filartex Ltd., the *operation*

gross profit registered in analysed period negative values, the big negative value being in 2003 of -336 thousand RON. The negative value from 2003 is due by bigger decreasing of the added value of 27% than decreasing of 18,62% in salary expenses and in other taxes of 48,78% that have a insignificant share in operational charges. In 2004, the negative value had diminished arriving to -105 thousand RON as a consequence of a 95% increase in added value and a 64,72% increase in salary expenses.

The current result registered a fluctuating evolution in 2002 – 2004 periods to the enterprises Monizac Ltd. and Fashion Ltd. Thus, if in 2003, the negative financial result influenced in a small measure the current result to Monizac Ltd., in 2004 this led to decreasing of the enterprise result. If in 2003, the real 22% increase in gross profit shows a rise of the global efficiency of the enterprise obtained on the base of 25% increase in operational result, in 2004 the result decrease was due both to a 52% decrease in operational result and accentuation of financial result loss that rised by 8,69 times approximately. To the Fashion Ltd., the trends are the same, only the values are lower. The current result at Filartex Ltd. was negative, the loss proceeding from operational result. The extraordinary result registered important negative values of -149 thousand RON in 2002 and -1.882 thousand RON in 2003 because of a fire.

The *net result* of Monizac Ltd. registered a real 12% increase in 2003 and a 78% decrease in 2004. This trend follows the same trend with the preview results presented, underlining once that the changing from the international level in textile field have an impact on the results obtained by enterprises. Net profit in 2002 and 2003 is sustained by the existence of real monetary funds, the enterprise disposing of 1.002 thousand RON and respectively 1.036 thousand RON. Even monetary funds don't represent than only 42,58% in 2002 and 39,20% in 2003 from the net result value, their existents shows that the net profit isn't only a financing potential but it can be partially used for dividends payment.

The *net result* of Fashion Ltd. registered a 11,41 times real increase in 2003 and in 2004 decreased, obtaining a loss of 14 thousand RON. The *net result and self-financing capacity* of Filartex Ltd. followed and here the same trend with the previews presented results.

Self-financing capacity to Monizac Ltd. had a 1% increase in 2003 and a 73% decrease in 2004. The self-financing fall in the second period was firstly determined by the 78% decrease in net result, this representing a potential global net cash flow uninfluenced by depreciations, provisions, assets giving up and profit tax. Self-financing capacity at fashion Ltd. had a 283% increase in 2003 and a 38% decrease in 2004. The rise from the first period shows an increase in additional resources from the global enterprise activity that can be used for enterprise financing taking into account the company didn't distribute dividends. In the next period, a drop in self-financing capacity was firstly determined by the decrease in net result.

Financial performance study on rates

In the performance study on rates I used selectively a few rates related to profitability, liquidity, solvency and liability after can be followed in Table no. 2. The profitability rates are calculated to their real values. The inflation rates used in actualisation is published on the Romanian National Bank web-site: 17,8% in 2002, 14,1% in 2003 and 11,9% in 2004.

Economic assets profitability to Monizac Ltd. registered positive values but decreasing being influenced by a 25% increase in operational result in 2003 and a 52% increase in 2004 and a 101% increase in economic assets in 2003 and a 38% increase in 2004. The registered values of economic assets profitability show the scanty possibility of the enterprise to assure renew and remuneration of their economic assets. We can't talk about profitability to Filartex Ltd. because all results are negative. The *economic profitability* at Fashion Ltd. can't be calculated in 2002 because of negative economic assets (due by a negative required working capital). In 2003 – 2004 period the economic profitability registered positive

values, decreasing in current prices but negative in comparable prices since 2004.

Table no. 2 – Profitability, liquidity, solvency and liability rates

Current no.	Indicators	MONIZAC Ltd.			FILARTEX Ltd.			FASHION Ltd.		
		2002	2003	2004	2002	2003	2004	2002	2003	2004
1.	Economic Assets Profitability	0,40	0,23	0,02	-	-	-	-	0,14	-
2.	Net Financial Profitability	1,43	0,27	0,02	-	-	-	50,78	0,75	-
3.	General Liquidity	0,92	1,25	0,46	0,76	1,35	1,05	0,32	0,86	1,57
4.	Solvency	1,54	3,53	1,81	1,43	0,97	0,84	1,00	1,15	1,09
5.	Total Liability Rate	3,05	0,42	1,67	2,31	-	-	3084	6,47	11,52

Net financial profitability at Monizac Ltd. had registered positive real values but decreasing. An 81% fall in net financial profitability in 2003 was determined by a lower 12% rise in net result than a 370% increase in own capitals and in 2004 a 93% decrease in net financial profitability was determined by a lower 78% drop in net result than a 33% drop in own capital. This net financial profitability was influenced by financial resources getting modality and also by their financial structure. Hence result that face value of financial profitability that was 187% in 2002, 45% in 2003 and 14% in 2004 is higher than average interest rate on the market that was 36,65% in 2002, 26,19% in 2003 and 25,81% in 2004 only in 2002 and 2003. At Fashion Ltd., net financial profitability registered a unconvincing value in 2002 because the extremely reduced value of own capital (0,2 thousand RON). In 2003, this rate registered an ordinarily value (75%) and in 2004 the net result being negative this rate can't be calculated.

In the analysed period, *general liquidity rate* at Monizac Ltd. wasn't in favourable liquidity interval with values between 2 and 2,5 and show that the enterprise had faced difficulties in short term debts payment. This situation appears in 2002 and 2003 because of debts given to associates and in 2004 because of the contracting a short term banking loan. The *general liquidity*

rate nor wasn't in favourable liquidity interval to Filartex Ltd. In 2002 and 2003, the difficulties that the enterprise had to face in short term debts payment was produced by remaining stat budget and social assurance, suppliers and divers creditors' debts and in 2004 by the suppliers and divers creditors debts. To the Fashion Ltd. the general liquidity rate situation is the same with Filartex Ltd., having remaining debts by stat and social assurance.

Analysing the solvency to Monizac Ltd. this is in ordinarily values, higher than 1,50 showing the enterprise capacity to pay all debts, thus warranting the debts through patrimony. The fluctuating evolution of this rate is due to the fluctuating trend of total debts. Thus, in 2003 the total asset increased by 50% and total debts decreased by 35%, determining a 129% increase in solvency rate while in 2004 the total asset increased by 34% and total debts increased by 163% determining a 49% decrease in solvency rate. The solvency rate to Filartex Ltd. shows that the enterprise is solvent. The solvency rate reducing from one year to another appear as a result an of 4,17% and a total debts increase of 41,91% in 2003 and a lower assets rise of 4,31% than total debts rise of 19,77% in 2004. The *solvency rate* nor wasn't in ordinarily values to Fashion Ltd., showing a lower capacity of the enterprise to debts payment. The fluctuating trend pf this rate was due by increasing evolution both

to the asset and total debts but in different percentages. Thus, in 2003 the total asset increased by 90% and total debts increased by 65%, determining a 15% increase in solvency rate while in 2004 the total asset increased by 53% and total debts increased by 62% determining a 5% decrease in solvency rate.

Related to *total liability rate* to Monizac Ltd. stated that registered fluctuating values: 3,05 in 2002, 0,42 in 2003 and 1,67 in 2004. In 2002 and 2004 the total liability rate was higher than 1 and shows the highly enterprise dependence given to their creditors as well as the existence of irredeemable debts risk by the enterprise especially in 2002. Although to the first sight we can tell that the enterprise was capable to pay their debts realising only a 0,42 liability rate in 2003 and this situation was determined not only of the substantially decreasing of debts but of the increase in own capital of 4,70 times than 2002 because of re-evaluation margins. Thus this re-evaluation guided to financial independence improvement. The *liability rate* to Filartex Ltd. was calculated only for 2002, because in 2003 – 2004 period the enterprise own capital were negative thus -203 thousand RON in 2003 and -1.314 thousand RON in 2004. This rate shows the highly enterprise dependence given to their creditors and the own capital negative value prove a critical situation of the enterprise. The *total liability rate* to Fashion Ltd. registered an unreal value in 2002 because of too low value of own capital. In the next period, the liability rate registered too higher values thus 6,47 in 2003 and 11,52 in 2004 showing a higher liability grade and a higher enterprise dependence over their creditors as well as the existence of irredeemable debts risk by the enterprise especially in 2003.

Conclusions

Realising a hierarchy of registered performances to those three analysed enterprises has been ascertained that higher performance was registered to Monizac Ltd., followed by Fashion Ltd. and Filartex Ltd. However, the tendencies

expressed to the international level in textile sector are founded over the financial performances of those enterprises through demands' loss in 2004 as we can see in decreasing of turnover. In the future, the Monizac Ltd. and Filartex Ltd. that realised important investments in technology and machines have to do limitation in lohn and to found new demands that gave them a higher added value. But the Fashion Ltd. that used only lohn, if shouldn't realize investments the risk to go out of the market will be higher. Although Filartex Ltd. had the lowest financial performance due to extraordinary event since 2003, in the future can be the strongest because of higher production capacity and only if continues to make new investments in technology, taking into account that has the higher experience in textile field.. About the Monizac Ltd. that had the higher financial performance in the analysed period will maintain this position because has the newest technology acquired through unredeemable financing.

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