Financing for Textile and Garments

A good financing decision works as a driving force for an organization to build a strong financial position. Financing decision varies industry to industry, organization to organization according to their financing requirement, financial strength and risk taking behavior of that particular parties. Here in this article you will have basic ideas of financing and how you can take financial decision for your textile and garments business.

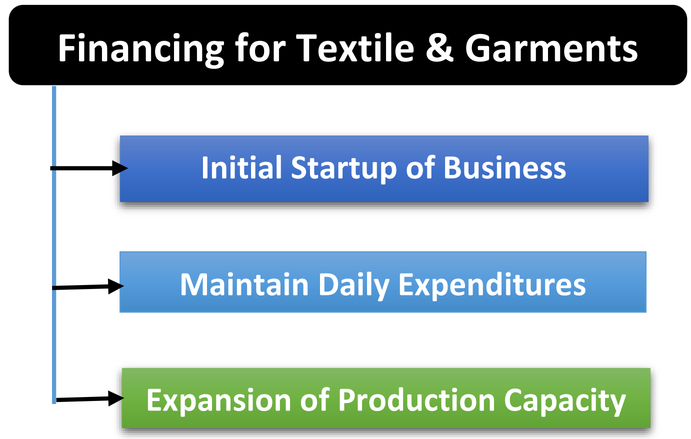
Basically the objective of financing is to collect money from the least cost sources and then invest in the profitable sectors. Here the challenge is minimize the cost and maximize the profit of the investment. Financing is required for different stages of business, like initial startup of business, or for maintaining the operational expenditures or for expansion of business. The mechanism of these financing need varies business to business.

If you are going to finance for the manufacturing industry then you will be required a large amount of fund for startup or for expansion of your business, and for operating expenditure you will be required working capital which is much less than the initial investment. On the other hand for service industry you have to invest a large amount of capital in the initial year and the operation cost is not that much high.

Now come to the point of financing for textile and garments industries, as this one is manufacturing industry which requires to buy different types of equipment (power and electricity generator, spinning machine, knitting machine, dyeing machine, printing machine, sewing machine, cutting machine and many more) we have to spends lots of money and our huge amount of capital will be invested for this purpose. In addition to this thousands of garments worker will be working here, for payment of salary and wages you will be required a larger amount of working capital. On the other hand for importing raw materials you will also be required huge amount of money.

If you want to expand your business to increase production capacity you have to invest huge amount of money for long term basis.

The question is how you can manage these required money and from where you can source this money. At the time of sourcing of money/ fund you always have to be careful about the cost of that fund, least costing source will be preferable.



Financing for Textile and Garments can be for:

- Initial startup of business.
- Maintaining daily expenditures.
- Expansion of Business/ Production Capacity.

Initial Expenditure for Starting a Textile and Garments Business

You already know that for starting a new setup for textile and garments you must spend a large amount of capital for purchasing capital machinery. The important thing is how you are going to finance for this, my suggestion is, and as capital machineries and equipment's for long term it will be a better decision of financing from the long term sources. Available options of financing are:

1. Long term bank loan (Debt Financing).
2. Selling share (Equity Financing); in case of public limited company.
3. Or you can choose both debt financing and equity financing (the ratio of debt to equity will be depend on the financial strength and the business risk of that company).

From the above alternatives, my personal suggestion is to choose third one because you cannot use fully debt financing because you have to bear a fixed cost (interest) for a certain interval of time for a period.

- Fixed cost financing may increase your financial risk, so try to avoid fully debt financing.
- On the other hand, equity financing is more costly as you have to share your all of your profit proportionately according to the contribution of equity capital.

The right choice is to use debt and equity to minimize the weighted average cost of capital. And you have to form your optimal capital structure by considering two major factors (business risk & financial strength). Taking loan for new business is not that much easy, that’s why initially we have to depend upon our own capital first. With the passes of time, for a successful business, it will be better to increase the debt percent so that taxable income can be reduced.

Financing for Maintaining Daily Expenditures

Actually maintaining daily expenditures means, managing working capital funds for your business operations or management of current assets and current liabilities. You may source your working capital either from long term or short term sources and the decision will be depend on the working capital management policy (hedging, conservative, aggressive) of yours. Before choosing working capital management policy you have to have brief idea of these policies:

- **Hedging Policy of Working Capital Management:** Hedging policy is one of the popular policy of managing funds where a matching principle is used. Financing for current obligation is done from the current assets (current sources) and on the other hand financing for long term obligation is done for the long term assets (long term sources). That means for short term requirement of funds you need to collect from short term sources and for long term requirements you have to collect from long term sources.
- **Conservative Policy of Working Capital Management:** In case of conservative policy company has the intention of taking low risk for financing current asset. Additional fund required for fixed assets company keeps extra fund for using as current asset. Here company financing (collecting) more funds from the long term sources for both current asset and fixed/long term assets. The main intention is to lowering the risk of financing for current asset.
- **Aggressive Policy of Working Capital Management:** Aggressive policy of working capital management is risky policy in a sense that most of required funds for current and long term assets is to be financed from the short term sources, lower amount of funds will be collected from the long term sources. Basically money will be kept less than the required amount for working capital that why risk is higher.

Before taking a policy form all these above mentioned policies you must evaluate your ability to liquid your asset and liquid (cash) required for your business. Another thing is your risk taking behavior towards working capital management.

The question is from which sources you can finance for the maintaining daily expenditures? The probable source available for the textile and garments are:

- Lowering the collection period of accounts receivables.
- Delaying the payment of accounts payable.
- Delaying the payment of salaries and wages.
- Taking short term bank loan.
- Purchasing raw materials on credit.

Financing for Expansion of Textile & Garments Business

As you already know that for business of textile and garments you will be required a lot of money. Expansion of business or expansion of production capacity requires larger investment to for purchase machineries and equipment, land, construct building etc. This is more or less similar with the initial investment for your business. In addition with acquiring capital assets, you have to hire workers and employees for supporting your business expansion. The thing is you have to pay wages and salaries, purchase of additional raw materials or any other operating expenditures. So you can manage these extra money from both long term sources and from short term sources. Whether you choose long term or short term source, is mainly depends on your financial strength and adequacy of money of your existing business. Normally a profitable textile and garments company has intention to expand when they find that the business is profitable and they can manage their extra required fund from their own profit.

After these discussion, I think that it is clear how you can finance for your textile and garments and which sources are available for financing. Careful analysis is to be done before any larger investment because for large investment risk is higher and involve cost also.

If you have any confusion then you can comment here. I will try to give you suggestion about financing and different problematic situations.

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Written by: Md. Nahian Mahmud Shaikat

Financial Analyst

Mail: Nahian.mahmud@gmail.com