

## Threads of Success: Kumar Textiles' Investment Journey

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In January 2023, Vikram Kumar, the chief executive officer (CEO) of Kumar Textiles Pvt. Ltd. (Kumar Textiles), a family-owned enterprise, found himself pondering over the trajectory of the company's growth. Founded in a small town in northern India, Kumar Textiles had gradually expanded its presence and reputation in the textile industry. However, despite significant progress, Vikram was determined to propel the company to new heights in the current financial landscape.

During the recent financial year of 2022-2023, Kumar Textiles achieved a milestone revenue exceeding ₹300 million, marking a substantial improvement from previous years. Yet, Vikram's vision extended far beyond mere financial benchmarks. His aspiration was to steer Kumar Textiles toward the ambitious target of ₹600 million by the end of March 2028. However, he grappled with the challenge of identifying sustainable strategies to overcome resource constraints and operational bottlenecks hindering this goal.

Amidst these deliberations, Vikram drew inspiration from the emerging generation of entrepreneurs within the Kumar family. Eager to contribute fresh perspectives and innovative solutions, these next-gen leaders demonstrated a keen interest in reshaping the company's business models to adapt to evolving market dynamics. Their enthusiasm infused Kumar Textiles with renewed energy and momentum, signalling a promising path forward.

Central to Vikram's confidence in the company's future was his son, Rahul Kumar, who recently joined Kumar Textiles after completing his MBA from a prestigious business school and gaining valuable experience at a multinational corporation. Vikram also relied on the collaborative efforts of his younger brother, Arjun Kumar, whose strategic insights complemented Vikram's vision for the company's growth trajectory.

However, Vikram acknowledged the imperative for transformative changes in Kumar Textiles' approach to business. Recognizing the limitations posed by operating from a Tier II city, Vikram was determined to navigate the complexities of the contemporary business landscape by embracing innovation and agility. Moreover, he remained mindful of the volatile and uncertain nature of the market, emphasizing the need for adaptive strategies to mitigate risks and seize opportunities effectively.

As Vikram embarked on this journey to redefine Kumar Textiles' strategic direction, he recognized the significance of aligning traditional family values with progressive business practices. Upholding ethical principles remained a cornerstone of the company's ethos, ensuring continuity amidst the evolving business landscape.

Against the backdrop of rapid technological advancements and shifting consumer preferences, Vikram embarked on a quest to modernize Kumar Textiles' business strategy, leveraging the collective expertise and commitment of the Kumar family. With a blend of tradition and innovation, he aimed to propel Kumar Textiles towards sustainable growth and enduring success in the dynamic textile industry.

### **About the Business**

Kumar Textiles Pvt. Ltd. is a dynamic family-owned enterprise rooted in the textile industry, with its origins traced back to a quaint town in northern India. Founded on the principles of integrity and quality craftsmanship, Kumar Textiles has evolved into a prominent player in the competitive market landscape, driven by a relentless pursuit of excellence and innovation.

Specializing in the production and distribution of premium textile products, Kumar Textiles has garnered a reputation for delivering superior quality fabrics tailored to meet diverse consumer preferences. From traditional attire to contemporary fashion trends, the company's extensive range of offerings caters to a wide spectrum of customers, both domestically and internationally.

At the helm of Kumar Textiles is Vikram Kumar, an astute leader with a visionary outlook and a deep-seated commitment to steering the company towards sustainable growth. Under his stewardship, Kumar Textiles has witnessed remarkable progress, achieving significant milestones in revenue generation and market expansion.

Central to Kumar Textiles' success is its unwavering dedication to innovation and adaptability. Embracing technological advancements and industry best practices, the company continually seeks to enhance its manufacturing processes and product offerings, staying ahead of evolving consumer demands and market trends.

Moreover, Kumar Textiles places a strong emphasis on fostering a culture of collaboration and inclusivity, harnessing the collective expertise and creativity of its workforce. With a team of skilled artisans, designers, and professionals, the company remains agile and responsive to changing market dynamics, ensuring agility and resilience in the face of challenges.

Beyond its commitment to business excellence, Kumar Textiles is deeply rooted in its social and environmental responsibilities. Upholding ethical standards and sustainable practices, the company strives to minimize its ecological footprint while making a positive impact on local communities through various CSR initiatives.

As Kumar Textiles embarks on its journey towards the future, it remains steadfast in its pursuit of excellence, guided by the timeless values of integrity, quality, and customer satisfaction. With a clear vision and a passion for innovation, the company is poised to achieve new heights of success and become a beacon of inspiration in the global textile industry.

### **Sunrise Textile Bazaar (STB)**

The evolution of Sunrise Textile Bazaar (STB) mirrors the broader trends reshaping the cloth market landscape. As consumer preferences shift, technological innovations disrupt traditional models, and sustainability takes centre stage, the cloth market experiences a profound transformation, presenting both challenges and opportunities for industry players.

One significant trend driving this transformation is the rise of sustainable fashion. With heightened awareness of environmental issues and ethical considerations, consumers increasingly seek clothing made from eco-friendly materials and produced under fair labor practices. This has prompted retailers in Sunrise Textile Bazaar to diversify their offerings and prioritize ethically sourced and environmentally sustainable textiles.

Furthermore, technological advancements are revolutionizing textile production, distribution, and customization. Innovations in materials science, digital printing, and manufacturing processes allow retailers to offer a broader range of options to consumers. Additionally, e-commerce platforms and digital marketing strategies extend the reach of Sunrise Textile Bazaar retailers, enabling them to connect with customers beyond their immediate vicinity and tap into new markets.

Another emerging trend in Sunrise Textile Bazaar is the growing demand for personalized and bespoke clothing. Consumers seek products that reflect their individual style and preferences, leading to increased interest in made-to-measure and custom-designed garments. Retailers leverage technologies like 3D body scanning and virtual fitting rooms to offer personalized shopping experiences, catering to the unique needs and tastes of their clientele.

Moreover, circular fashion gains momentum within Sunrise Textile Bazaar, with a focus on waste reduction and resource efficiency. Retailers embrace circularity principles by designing durable products, using recycled materials, and implementing take-back and recycling programs. This not only

minimizes environmental impact but also appeals to eco-conscious consumers who prioritize sustainability.

Additionally, experiential retailing is on the rise in Sunrise Textile Bazaar, with retailers investing in immersive shopping experiences to engage customers and drive foot traffic. Pop-up shops, live demonstrations, workshops, and events create memorable experiences, fostering brand loyalty and differentiation in a competitive market.

### **The need for Capital**

The Kumar family gathered around the dining table, a familiar setting for their discussions on the family business. Vikram Kumar, the patriarch and CEO of Kumar Textiles, led the conversation, flanked by his son Rahul and younger brother Arjun. As they sipped on chai, Vikram began, "I think it's time we discuss the future of Kumar Textiles and how we can ensure its continued success."

Rahul nodded, eager to contribute, "I agree, Dad. With the changing dynamics of the cloth market, we need to adapt and innovate to stay ahead. I've been researching consumer trends, and it's clear that sustainability and personalized experiences are key drivers of customer loyalty."

Arjun chimed in, "Absolutely, Rahul. We've seen the rise of sustainable fashion and the demand for eco-friendly textiles. I believe we should explore opportunities to expand our offerings in this area. Investing in sustainable manufacturing processes and promoting our eco-friendly initiatives could set us apart from competitors."

Vikram nodded thoughtfully, "I couldn't agree more, Arjun. Sustainability is not just a trend; it's becoming a necessity in today's market. We need to demonstrate our commitment to environmental responsibility while also ensuring the quality and affordability of our products."

Rahul added, "In addition to sustainability, I think we should focus on enhancing the customer experience. The Sunrise Textile Bazaar is a vibrant marketplace, and we need to find ways to stand out. What if we invest in interactive displays or host workshops and events to engage customers?"

Vikram smiled proudly at his son's suggestion, "That's an excellent idea, Rahul. Creating memorable experiences for our customers will not only drive foot traffic but also build brand loyalty. Let's explore different ways to make Kumar Textiles a destination within the Sunrise Textile Bazaar."

Arjun nodded in agreement, "I also think we should consider expanding our digital presence. E-commerce is growing rapidly, and we need to ensure we're reaching customers both online and offline. Investing in a robust online platform could open up new avenues for growth."

As the discussion continued, the Kumar family brainstormed ideas, debated strategies, and shared their insights on how to navigate the challenges and opportunities facing Kumar Textiles. With their collective expertise and commitment to the family business, they were confident they could chart a course for success in the ever-evolving cloth market landscape of the Sunrise Textile Bazaar.

### In the office of CFO

In the CEO's spacious office, Vikram Kumar sat across from his CFO, Ayesha Sharma, discussing the pressing matter of raising capital for Kumar Textiles' expansion plans. Ayesha began, "Vikram, we need to explore our options for raising capital to fund the initiatives we've discussed. I've been looking into various avenues, and I believe we have a few viable options."



Vikram leaned forward attentively, "I'm all ears, Ayesha. What do you suggest?"

Ayesha pulled out a folder and laid out a series of documents on Vikram's desk, "Firstly, we could consider traditional bank loans or lines of credit. With our solid financial track record and projected growth, we're in a good position to secure favourable terms. However, this would mean taking on debt and committing to regular interest payments."

Vikram nodded thoughtfully, "That's a safe option, Ayesha. But I'm concerned about overleveraging the company and tying up our cash flow in debt servicing. What else do you have in mind?"

Ayesha flipped to the next document, "Another option is equity financing. We could issue new shares of stock to investors in exchange for capital infusion. This would dilute existing ownership stakes but could provide a significant injection of funds without adding to our debt burden."

Vikram considered this option, "Equity financing could give us the capital we need without incurring additional debt. But we'd have to carefully consider the implications for ownership and control of the company. What about other alternatives?"

Ayesha nodded, "We could explore venture capital or private equity investment. These firms provide capital in exchange for an ownership stake in the company and often bring expertise and industry connections to the table. However, they may also have specific expectations regarding growth and returns."

Vikram weighed the pros and cons, "Venture capital or private equity could be a strategic move, especially if we're looking to accelerate our expansion plans. But we'd need to ensure alignment with our long-term vision and values. Are there any other options we should consider?"

Ayesha paused, considering her next suggestion, "Lastly, we could explore strategic partnerships or joint ventures with other companies in the industry. This could provide access to additional resources, markets, and expertise, while also sharing the risks and rewards of expansion."

Vikram nodded, impressed by Ayesha's thorough analysis, "Strategic partnerships could offer a win-win scenario, leveraging synergies between our strengths and those of potential partners. Let's explore this option further and see if we can identify suitable collaborators."

As Vikram and Ayesha continued their discussion, they evaluated each option in light of Kumar Textiles' goals, risk tolerance, and financial health. By weighing the pros and cons of different capital-raising strategies, they were confident they could secure the necessary funds to fuel the company's growth and position Kumar Textiles for success in the competitive cloth market landscape.

### **The Investor Meet**

In a sleek boardroom adorned with modern furnishings and panoramic views of the city skyline, Vikram Kumar, CEO of Kumar Textiles, sat across from a group of investors, including representatives from venture capital firms and private equity funds. The atmosphere was charged with anticipation as the investors prepared to discuss potential investment opportunities in Kumar Textiles.

Addressing the group, Vikram began, "Thank you all for joining us today. As we explore potential investment partnerships, I want to emphasize our commitment to maximizing returns while ensuring responsible stewardship of capital. At Kumar Textiles, we understand the importance of delivering value to our investors while driving sustainable growth."

One of the investors, representing a prominent venture capital firm, spoke up, "Vikram, we appreciate your focus on returns. Can you provide us with some insights into Kumar Textiles' return on invested capital (ROIC) and how it aligns with your growth strategy?"

Vikram nodded, "Of course. Our ROIC metrics reflect our efficiency in deploying capital to generate profits. Over the past few years, we've consistently achieved strong ROIC figures, thanks to strategic investments in technology, innovation, and operational efficiency. We believe this trend will continue as we pursue our expansion plans and capitalize on emerging opportunities in the cloth market."

Another investor, representing a private equity fund, interjected, "That's reassuring to hear, Vikram. However, we're particularly interested in understanding how you plan to sustain and enhance ROIC in the future. What steps are you taking to optimize capital allocation and drive profitability?"

Vikram leaned forward, ready to address the investor's concerns, "We're continually evaluating our investment priorities and allocating capital to projects with the highest potential for returns. This includes expanding our product offerings, enhancing our digital capabilities, and leveraging data analytics to inform decision-making. Additionally, we're focused on optimizing our supply chain and streamlining operations to improve efficiency and reduce costs."

The investors listened intently, impressed by Vikram's strategic approach to capital allocation and profitability. However, one investor raised a final question, "Vikram, while ROIC is important, how do you balance the pursuit of returns with other priorities, such as sustainability and corporate social responsibility?"

Vikram smiled, recognizing the significance of the investor's inquiry, "That's an excellent question. At Kumar Textiles, we believe that sustainability and profitability go hand in hand. By investing in eco-friendly technologies, promoting ethical sourcing practices, and fostering a culture of social responsibility, we not only mitigate risk but also enhance our brand reputation and long-term viability. Ultimately, we view sustainable practices as integral to our business strategy and essential for delivering value to our investors."

As the discussion drew to a close, the investors expressed their appreciation for Vikram's insights and reiterated their confidence in Kumar Textiles' ability to deliver attractive returns while upholding its commitment to sustainability and responsible business practices. With a shared vision for growth and profitability, Vikram and the investors were poised to forge a mutually beneficial partnership that would propel Kumar Textiles to new heights of success in the cloth market landscape.

## Balancing Profitability and Purpose

In the bustling metropolis of Mumbai, Vikram Kumar, the CEO of Kumar Textiles, found himself in the heart of a high-stakes pursuit: seeking investments to propel his family's business to new heights. Armed with ambitious growth plans and a vision for the future of Kumar Textiles, Vikram embarked on a series of meetings with potential investors, each one crucial in securing the capital needed to realize his aspirations.

As Vikram pitched Kumar Textiles to investors, he emphasized the company's track record of success, its solid financial performance, and its strategic positioning in the cloth market landscape. However, he knew that to truly capture the attention of investors, he needed to articulate a compelling case for the return on their invested capital.

In each meeting, Vikram meticulously outlined Kumar Textiles' growth strategy, highlighting key initiatives aimed at driving profitability and maximizing returns for investors. From expanding product offerings to leveraging digital technologies and enhancing operational efficiency, Vikram painted a picture of a company poised for exponential growth and sustainable success.

Yet, as Vikram fielded questions from investors about projected ROIC (Return on Invested Capital) and the company's ability to deliver value, he couldn't help but feel the weight of their expectations. How could Kumar Textiles balance the pursuit of profitability with its commitment to sustainability and ethical business practices? And how would investor demand for returns influence the company's strategic decisions and capital allocation priorities?

As the meetings progressed, Vikram found himself grappling with these complex questions, recognizing the delicate balance between driving financial performance and upholding the values that defined Kumar Textiles as a family-owned enterprise. In his pursuit of investments, Vikram remained steadfast in his belief that profitability and sustainability were not mutually exclusive but rather intertwined facets of the company's overarching mission.

**Income Statement of Kumar Textile Pvt. Ltd**

	PROJECTED					
	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
<b>Net sales</b>	6824.51	6205.8	5672.1	4868.9	4490.4	4286.8
<b>Costs and expenses</b>						
<b>Cost of products sold</b>	4505.05	4258.2	4001.6	3392.8	3180.5	3082.7
<b>Marketing and selling expenses</b>	1051.82	980.5	818.8	733.3	626.2	544.4
<b>Administrative expenses</b>	337.37	290.7	252.1	232.6	213.9	195.9
<b>Research and development expenses</b>	61.93	53.7	47.7	46.9	44.8	42.2
<b>Interest expense</b>	127.82	111.6	94.1	53.9	51.7	56
<b>Interest income</b>	-28.6	-17.6	-38.3	-33.2	-29.5	-27.4
<b>Foreign exchange losses, net</b>	0.88	3.3	19.3	16.6	4.8	0.7
<b>Other expense (income)</b>	28.82	14.7	32.4	-3.2	-9.5	5.5
<b>Divestitures, restructuring, and unusual charges</b>	0	339.1	343	40.6	0	0
<b>Total costs and expenses</b>	6085.09	6034.2	5570.7	4480.3	4082.9	3900
<b>Earnings before equity in earnings of affiliates and minority interests of affiliates</b>	739.42	171.6	101.4	388.6	407.5	386.8
<b>Equity in earnings of affiliates</b>	2.64	13.5	10.4	6.3	15.1	4.3
<b>Minority interests</b>	-7.92	-5.7	-5.3	-6.3	-4.7	-3.9
<b>Earnings before taxes</b>	734.14	179.4	106.5	388.6	417.9	387.2
<b>Taxes on earnings</b>	292.49	175	93.4	147	170.6	164
<b>Earnings before cumulative effect of accounting change</b>	441.65	4.4	13.1	241.6	247.3	223.2
<b>Cumulative effect of change in accounting for income taxes</b>	0	0	0	32.5	0	0
<b>Net earnings</b>	441.65	4.4	13.1	274.1	247.3	223.2
<b>Earnings per share</b>	3.16	0.03	0.1	2.12	1.9	1.72
<b>Weighted-average shares outstanding</b>	140	126.6	129.3	129.3	129.9	129.5

**BALANCE SHEET OF KUMAR TEXTILE PVT. LTD**

	PROJECTED					
	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
CASH AND CASH EQUIVALENTS	196.79	80.7	120.9	85.8	145	155.1
OTHER TEMPORARY INVESTMENTS	14.08	22.5	26.2	35	280.3	238.7
ACCOUNTS RECEIVABLE	580.14	624.5	538	486.9	338.9	299
INVENTORIES	777.37	819.8	816	664.7	623.6	610.5
PREPAID EXPENSES	101.97	118	100.4	90.5	50.1	31.5
<b>TOTAL CURRENT ASSETS</b>	<b>1670.35</b>	<b>1665.5</b>	<b>1601.5</b>	<b>1362.9</b>	<b>1437.9</b>	<b>1334.8</b>
PLANT ASSETS, NET OF DEPRECIATION	1969.44	1717.7	1540.6	1508.9	1349	1168.1
INTANGIBLE ASSETS, NET OF AMORTIZATION	479.05	383.4	466.9	496.6	—	—
OTHER ASSETS	445.06	349	323.1	241.2	310.5	259.9
<b>TOTAL ASSETS</b>	<b>4563.9</b>	<b>4115.6</b>	<b>3932.1</b>	<b>3609.6</b>	<b>3097.4</b>	<b>2762.8</b>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
NOTES PAYABLE	310.42	202.3	271.5	138	93.5	88.9
PAYABLE TO SUPPLIERS AND OTHERS	530.64	525.2	508.2	446.7	374.8	321.7
ACCRUED LIABILITIES	449.57	491.9	392.6	236.9	182.1	165.9
DIVIDEND PAYABLE	40.7	32.3	29.7	—	—	—
ACCRUED INCOME TAXES	74.47	46.4	30.1	41.7	43.4	49.6
<b>TOTAL CURRENT LIABILITIES</b>	<b>1405.8</b>	<b>1298.1</b>	<b>1232.1</b>	<b>863.3</b>	<b>693.8</b>	<b>626.1</b>
LONG-TERM DEBT	849.86	805.8	629.2	525.8	380.2	362.3
OTHER LIABILITIES, MAINLY DEFERRED INCOME TAX	335.5	319.9	292.5	325.5	287.3	235.5
CAPITAL STOCK	22.33	20.3	20.3	20.3	20.3	20.3
CAPITAL SURPLUS	118.03	61.9	50.8	42.3	41.1	38.1
EARNINGS RETAINED IN THE BUSINESS	2103.86	1653.3	1775.8	1879.1	1709.6	1554
CAPITAL STOCK IN TREASURY, AT COST	297.44	107.2	70.7	75.2	46.8	48.4
CUMULATIVE TRANSLATION ADJUSTMENTS	25.96	63.5	2.1	28.5	11.9	-25.1
<b>TOTAL SHAREOWNERS' EQUITY</b>	<b>1972.74</b>	<b>1691.8</b>	<b>1778.3</b>	<b>1895</b>	<b>1736.1</b>	<b>1538.9</b>
<b>TOTAL LIABILITIES AND SHAREOWNERS' EQUITY</b>	<b>4563.9</b>	<b>4115.6</b>	<b>3932.1</b>	<b>3609.6</b>	<b>3097.4</b>	<b>2762.8</b>