

# A Study on Financial Performance Analysis of the Lakshmi Mills Company Limited Coimbatore

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## ABSTRACT

Assessing a company's economic viability through its published financial statements forms the backbone of financial performance evaluation. This paper examines the fiscal health of The Lakshmi Mills Company Limited, Coimbatore, one of the country's longest-standing textile producers, incorporated as early as 1910. The investigation covers five consecutive accounting years from 2020-21 through 2024-25, drawing exclusively on data disclosed in the company's audited annual reports. Analytical techniques applied include ratio analysis, directional trend measurement, and Pearson correlation assessment. Parameters examined span short-term payment capacity (current, quick, and absolute liquidity ratios), long-term capital structure (debt-equity, proprietary, and fixed assets ratios), operational effectiveness (inventory, receivables, and working capital turnover), and earnings performance (return on equity). Key observations indicate that although the firm sustained acceptable near-term solvency across all five years, the position has gradually weakened. External borrowing remained minimal relative to owned capital, reflecting a cautious debt policy. Nonetheless, returns generated for shareholders and debtor collection speed deteriorated noticeably over the review window, signalling areas warranting strategic attention. Trend figures confirm expansion in both asset and liability bases, while the weak stock-cash correlation ( $r = 0.11$ ) suggests these two liquidity components operate largely independently.

**Keywords:** Fiscal Health Assessment, Ratio Analysis, Lakshmi Mills, Cotton Textile Sector, Working Capital Management, Short-Term Solvency, Capital Structure

## 1. INTRODUCTION

Capital is the engine that drives every business organisation. Without reliable access to funds and the discipline to deploy them wisely, even operationally sound enterprises risk collapse. Scholars and practitioners have long recognised that business failures often stem not from an absolute scarcity of resources but from poor allocation and inadequate oversight of available funds. In a fiercely competitive marketplace, therefore, the ability to plan, mobilise, and monitor financial resources is not merely advantageous, it is indispensable.

Evaluating fiscal health entails a structured examination of inter-relationships among key line items across a firm's balance sheet, income statement, and cash-flow disclosures. The exercise yields insights across four critical dimensions: the firm's capacity to meet short-duration obligations (liquidity), its ability to honour long-term commitments (solvency), the pace at which it converts assets into revenue (efficiency), and the magnitude of returns generated for capital providers (profitability). As noted by Myers, such analysis fundamentally involves studying the relationships among various financial factors within a business as disclosed by its financial reports. Together, these dimensions furnish a composite portrait of organisational health that no single metric can capture alone.

Operating within this landscape, The Lakshmi Mills Company Limited holds a distinguished position in Indian manufacturing history. Since its establishment in Coimbatore in 1910, the company has developed a diversified product range encompassing spun yarns, woven fabrics, and specialised technical textiles. Despite this institutional legacy, the firm navigates an environment characterised by intense competition, price-sensitive buyers, and unpredictable input costs. The present investigation therefore undertakes a structured, multi-tool financial assessment spanning fiscal years 2020-21 to 2024-25, with the dual purpose of diagnosing the current financial condition and producing actionable recommendations for the company's leadership.

## 2. REVIEW OF LITERATURE

Pandey (2016) documented financial management practices across Indian manufacturing and established ratio analysis as a cornerstone diagnostic instrument, noting how volatile cotton prices and insufficient cost controls periodically compressed profit margins in the textile sector. Kumar and Batra (2017) concentrated on working capital governance in textile firms, demonstrating a strong positive link between disciplined receivables management and inventory control on one hand and overall earnings performance on the other. Singh and Kaur (2017) surveyed the financial position of multiple textile enterprises using ratio and trend tools, confirming that robust liquidity buffers enabled firms to fulfil short-term obligations without operational disruption.

Mehta (2018) drew attention to cost-side pressures, showing that rising energy and wage expenses materially compressed net margins across textile enterprises. Sharma (2018) modelled the relationship between capital structure and equity returns, concluding that judicious leverage amplified ROSF while excessive debt introduced disproportionate financial risk. Rao and Joshi (2019) examined spinning mills in depth, identifying raw material procurement costs as the largest single profitability driver and advocating machinery modernisation as a route to productivity gains. Gupta (2020) reinforced the strategic importance of liquidity management, noting that firms maintaining adequate liquid reserves sustained smoother operations through market downturns. Patel (2021) shifted focus to the regulatory environment, finding that GST reforms improved tax transparency but imposed compliance-related cash-flow burdens on smaller textile producers.

Iyer and Balasubramanian (2022) observed that textile firms integrating digital sales channels and broader product portfolios achieved faster post-pandemic revenue recovery than peers relying on conventional distribution. Bruno Milanez (2022) advocated combining ratio-based metrics with correlation and regression tools to produce a more comprehensive picture of firm performance. Mohanakumar and George (2023) argued for supplementing traditional accounting ratios with value-creation indicators that capture long-run wealth generation. Most recently, Angel Uruburued et al. (2024) reported widespread financial performance instability across selected Indian companies and recommended more intensive utilisation of productive assets alongside tighter control over non-operational expenditure.

## 3. SCOPE AND STATEMENT OF THE PROBLEM

This investigation is confined to a quantitative financial evaluation of The Lakshmi Mills Company Limited, Coimbatore, across five financial years from 2020-21 to 2024-25. It systematically examines the company's liquidity position, solvency profile, operational efficiency ratios, and profitability indicators using published audited data. The primary intent is to equip the company's decision-makers with an evidence-grounded diagnostic of financial strengths and vulnerabilities. The study does not extend to primary surveys or competitor benchmarking. Despite its long institutional standing in the Indian textile ecosystem, Lakshmi Mills operates in an environment where profitability is continually contested by shifts in raw material costs, evolving labour dynamics, and variable capital productivity, underscoring the necessity of periodic structured financial analysis.

## 4. OBJECTIVES OF THE STUDY

**Primary Objective:** To carry out a comprehensive, data-driven financial performance assessment of The Lakshmi Mills Company Limited, Coimbatore, covering the period 2020-21 to 2024-25.

**Secondary Objectives:**

- To measure and interpret the firm's liquidity, long-term solvency, and profitability positions using a structured set of financial ratios.
- To track directional shifts in current assets, current liabilities, and net working capital across the five-year horizon.
- To gauge how effectively the company converts its asset base and working capital into operational revenue.
- To quantify the statistical association between inventory holdings and available cash reserves.
- To generate practical, evidence-backed recommendations for strengthening the company's overall financial performance.

## 5. RESEARCH METHODOLOGY

The study adopts a combined descriptive-cum-analytical framework spanning five financial years (2020-21 to 2024-25). Descriptive elements summarise the company's financial position at each point in time, while the analytical dimension interprets inter-year movements and draws inferences about underlying financial dynamics. All financial information, comprising balance sheets, profit and loss accounts, and supporting schedules, was obtained exclusively from the audited annual reports published by The Lakshmi Mills Company Limited. No primary data were collected.

### Three principal analytical tools are employed in this study:

- **Ratio Analysis:** A set of fourteen financial ratios was computed across four dimensions: liquidity (current ratio, liquidity ratio, absolute liquidity ratio), solvency (fixed assets ratio, debt-equity ratio, proprietary ratio), efficiency (debtors' turnover, inventory turnover, working capital turnover, cash to working capital, stock to working capital, current assets to total assets, loans and advances to current assets), and profitability (return on shareholders' funds).
- **Trend Analysis:** Using 2020-21 as the reference base (= 100), percentage trend indices were calculated for current assets, current liabilities, and working capital across each subsequent year to reveal directional growth patterns.
- **Correlation Analysis:** The Pearson product-moment correlation coefficient (r) was computed to assess the linear association between annual inventory balances and cash holdings throughout the five-year study window.

**Pearson Correlation Formula:**  $r = \frac{[N\sum XY - \sum X \sum Y]}{\sqrt{[N\sum X^2 - (\sum X)^2]} \times \sqrt{[N\sum Y^2 - (\sum Y)^2]}}$

## 6. DATA ANALYSIS AND INTERPRETATION

### 6.1 Liquidity Ratios

**Table 1: Current Ratio (2020-21 to 2024-25)**

Year	Current Assets (Rs. Lakhs)	Current Liabilities (Rs. Lakhs)	Current Ratio
2020-21	6,224.64	4,008.93	1.55
2021-22	7,187.48	4,476.21	1.61
2022-23	7,684.85	4,548.44	1.69
2023-24	8,320.50	5,436.36	1.53
2024-25	7,957.81	5,175.62	1.54

Source: Annual Reports of The Lakshmi Mills Company Limited

The current ratio captures the degree to which short-term assets can absorb near-term payment obligations. For Lakshmi Mills, the ratio climbed from 1.55 in the base year to a high of 1.69 in 2022-23, indicating that working capital buffers were actively strengthened during this phase. A subsequent contraction to 1.53-1.54 in the closing years reflects accelerating growth in current liabilities relative to current assets. Critically, the ratio has remained above the minimum accepted threshold of 1.0 throughout, confirming consistent capacity to meet near-term obligations, though the recent downward drift warrants continued management attention.

**Table 2: Debt-Equity Ratio (2020-21 to 2024-25)**

Year	Total Long-Term Debt (Rs. Lakhs)	Shareholders' Funds (Rs. Lakhs)	Ratio
2020-21	1,647.82	7,161.21	0.23
2021-22	1,403.32	8,544.42	0.16
2022-23	1,530.15	9,604.20	0.16
2023-24	1,298.82	10,653.30	0.12
2024-25	1,546.31	12,004.35	0.13

Source: Annual Reports of The Lakshmi Mills Company Limited

The debt-equity ratio communicates the balance between creditor-supplied and owner-supplied capital. Lakshmi Mills recorded a marked decline from 0.23 at the start of the period to just 0.12-0.13 in the final two years, while simultaneously growing shareholders' funds from Rs. 7,161.21 lakhs to Rs. 12,004.35 lakhs. This twin movement confirms active reduction of external debt dependence alongside internal equity accumulation, reinforcing the firm's capacity to withstand financial shocks. An exceptionally low ratio also means the company foregoes the return-amplifying effect of moderate leverage, which management may revisit when planning future capital expenditures.

**Table 3: Return on Shareholders' Funds (2020-21 to 2024-25)**

Year	Net Profit After Tax (Rs. Lakhs)	Shareholders' Funds (Rs. Lakhs)	Ratio (%)
2020-21	2,473.90	7,161.21	34.55
2021-22	1,451.08	8,544.42	16.98
2022-23	1,092.28	9,604.20	11.37
2023-24	1,096.87	10,653.30	10.30
2024-25	1,394.98	12,004.35	11.62

Source: Annual Reports of The Lakshmi Mills Company Limited

Return on shareholders' funds (ROSF) measures the profit generated per rupee of equity invested and is a primary indicator of value creation for owners. The data reveal steep compression in this ratio, from 34.55% in 2020-21 to 10.30% by 2023-24. Two interacting forces drove this decline: net profit contracted sharply from Rs. 2,473.90 lakhs to approximately Rs. 1,092-1,097 lakhs, while the equity base simultaneously expanded by over 67%. A modest recovery to 11.62% in 2024-25 offers an early sign of stabilisation, though the structural gap between equity accumulation and profit growth remains the central challenge requiring strategic management attention.

### 6.2 Trend Analysis

**Table 4: Trend Analysis – Current Assets, Current Liabilities & Working Capital**

Year	Curr. Assets	Trend %	Curr. Liab.	Trend %	Working Cap.	Trend %
2020-21	6,224.64	100.00	4,008.93	100.00	2,215.71	100.00
2021-22	7,187.48	115.47	4,476.21	111.66	2,711.27	122.37
2022-23	7,684.85	123.45	4,548.44	113.46	3,136.41	141.56
2023-24	8,320.50	133.66	5,436.36	135.61	2,884.14	130.17
2024-25	7,957.81	127.83	5,175.62	129.13	2,782.19	125.57

Source: Annual Reports of The Lakshmi Mills Company Limited (Base Year: 2020-21)

Trend indices quantify how each component moved relative to the 2020-21 baseline. Current assets expanded to 127.83% of their base-year value by 2024-25, while current liabilities reached 129.13%, meaning liabilities grew marginally faster than assets over the full period. Net working capital peaked at a trend value of 141.56% in 2022-23, reflecting the most favourable liquidity cushion within the review window. The subsequent moderation to 125.57% aligns with the declining current ratio observed in later years and signals that management must balance operational scale growth against the rate of short-term obligation accumulation.

### 6.3 Correlation Analysis

To examine whether inventory build-up and cash accumulation move in a co-ordinated fashion, a Pearson correlation coefficient was computed across the five-year window. The resulting value of  $r = 0.11$  denotes an extremely weak positive association, close to statistical independence. In practical terms, rising stock levels are not reliably accompanied by corresponding changes in cash holdings, and vice versa. This implies that inventory procurement decisions and cash management practices are executed through distinct, largely unco-ordinated processes rather than as components of an integrated liquidity strategy, pointing to a gap in overall treasury management.

## 6.4 Summary of Key Financial Ratios

**Table 5: Summary of Key Financial Ratios (2020-21 to 2024-25)**

Ratio	2020-21	2021-22	2022-23	2023-24	2024-25
Current Ratio	1.55	1.61	1.69	1.53	1.54
Liquidity Ratio	1.08	1.07	1.21	0.99	0.99
Abs. Liquidity Ratio	0.02	0.06	0.03	0.01	0.21
Fixed Assets Ratio	0.79	0.74	0.74	0.77	0.88
Debt-Equity Ratio	0.23	0.16	0.16	0.12	0.13
Proprietary Ratio	1.56	1.56	1.58	1.58	1.36
Debtors' Turnover	12.09	7.52	7.13	6.71	7.53
Inventory Turnover	6.66	4.31	4.26	4.34	3.65
Working Cap. Turnover	8.98	4.88	4.73	5.49	5.75
Return on S/H Funds (%)	34.55	16.98	11.37	10.30	11.62

Source: Compiled from Annual Reports of The Lakshmi Mills Company Limited.

## 7. FINDINGS

### 7.1 Liquidity

- The current ratio stayed above the 1.0 threshold across all five years (range: 1.53 to 1.69), confirming consistent short-term solvency. The downward drift evident from 2022-23 onwards, however, merits ongoing supervisory attention.
- The quick ratio dipped to 0.99 in both 2023-24 and 2024-25, revealing that liquid assets, net of inventory, are now marginally insufficient to cover current liabilities, underscoring the importance of maintaining adequate non-inventory liquid buffers.
- The absolute liquidity ratio surged to 0.21 in 2024-25, up sharply from just 0.01 in 2023-24, driven by deliberate accumulation of cash and near-cash instruments that materially strengthens the firm's immediate payment position.

### 7.2 Solvency

- The fixed assets ratio rose progressively from 0.79 to 0.88, demonstrating that a growing proportion of long-term resources is being channelled into productive capital assets, consistent with an investment-oriented growth posture.
- The debt-equity ratio fell consistently from 0.23 to 0.13, confirming progressive deleveraging and reduced financial risk, while shareholders' funds expanded substantially from Rs. 7,161.21 lakhs to Rs. 12,004.35 lakhs, underscoring strong internal capital generation.
- The proprietary ratio edged downward from 1.56 to 1.36 in the final year, indicating that fixed asset expansion has slightly outpaced equity growth in recent periods, a trend that warrants monitoring if it continues.

### 7.3 Efficiency

- The debtors' turnover ratio dropped from 12.09 times in 2020-21 to a low of 6.71 times in 2023-24 before a partial recovery to 7.53 in 2024-25, signifying that collection cycles have lengthened considerably and more working capital is now tied up in receivables.
- The inventory turnover ratio declined steadily from 6.66 to 3.65 times, indicating that stock is being converted to sales at roughly half the pace recorded in the base year, potentially elevating storage costs and obsolescence risk.
- The working capital turnover ratio compressed from 8.98 in 2020-21 to a trough of 4.73 in 2022-23, before recovering partially to 5.75 in 2024-25, suggesting the company currently generates less revenue per rupee of net working capital than it achieved in the base year.

### 7.4 Profitability & Trend

- Return on shareholders' funds declined sharply from 34.55% in 2020-21 to 10.30% in 2023-24, recovering marginally to 11.62% in 2024-25. The primary structural cause is that equity accumulation has far outrun net profit growth, continuously diluting the return rate even when absolute profits stabilise.

- Trend analysis confirms parallel expansion in current assets (127.83%) and current liabilities (129.13%) over the study period, with net working capital peaking at 141.56% in 2022-23 before moderating in subsequent years.
- Correlation analysis yielded  $r = 0.11$ , establishing a near-zero positive association between inventory and cash balances, implying that these two critical liquidity components are governed through largely independent operational processes.

## 8. SUGGESTIONS

- Management should institute a formal receivables governance programme comprising differentiated credit limits, automated overdue alerts, and structured early-payment incentives to reverse the deteriorating debtors' turnover trend and reduce capital locked in unpaid invoices.
- A science-based inventory rationalisation strategy combining Economic Order Quantity (EOQ) modelling, ABC classification, and selective Just-in-Time procurement agreements with key suppliers would curb excessive stock accumulation and materially improve inventory velocity.
- Given that the quick ratio has reached the borderline of 1.0, the company should establish a minimum liquid-reserve policy covering cash, bank deposits, and readily realisable short-term securities, ensuring that sudden payment demands can be met without forced asset disposal.
- While the current debt-equity ratio of approximately 0.13 is sound, strategic use of moderate long-term debt, particularly for capacity expansion or technology upgrades, could amplify equity returns through financial gearing without materially elevating overall financial risk.
- A focused cost-optimisation programme targeting material consumption, energy utilisation, and administrative overhead, including supplier diversification and process streamlining, is essential to rebuild operating margins and arrest the persistent decline in absolute profitability.
- Integrated treasury management, with co-ordinated policies governing inventory replenishment, receivables collection, and cash deployment, would address the weak stock-cash correlation and improve overall working capital efficiency and strategic agility.

## 9. CONCLUSION

This investigation presents a systematic and comprehensive fiscal evaluation of The Lakshmi Mills Company Limited, Coimbatore, covering five financial years from 2020-21 to 2024-25. The analysis reveals a company built on solid structural foundations: a growing equity base expanding from Rs. 7,161.21 lakhs to Rs. 12,004.35 lakhs, disciplined debt reduction, and steady total asset growth from Rs. 13,169.75 lakhs to Rs. 19,154.11 lakhs, collectively testifying to the firm's sustained capacity for capital accumulation and productive investment.

Nevertheless, the study surfaces a cluster of performance challenges that management must address proactively. The most pressing is the sustained compression in return on shareholders' funds, a consequence of profits failing to keep pace with rapidly accumulating equity. Simultaneously, declining debtors' turnover and inventory turnover ratios indicate that operational efficiency has eroded relative to the base year, increasing the quantum of capital immobilised in working assets. The narrowing gap between current asset and current liability growth rates further signals that the liquidity buffer of earlier years cannot be taken for granted going forward.

Overall, Lakshmi Mills demonstrates the resilience and institutional heritage of a well-established textile enterprise. With deliberate action on receivables governance, inventory rationalisation, cost discipline, and integrated treasury management, the company is well-positioned to convert its structural strengths into measurably superior financial outcomes and deliver enhanced value to its shareholders and other stakeholders in the years ahead.

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