

LIQUIDITY AND SOLVENCY ANALYSIS OF ANITHAA WEAVING MILL, NAMAKKAL: A FIVE-YEAR RATIO STUDY (2019–2024)

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ABSTRACT

This study examines the liquidity and solvency position of Anithaa Weaving Mill Private Limited, a cotton grey woven fabric manufacturer registered at Tiruchengode, Namakkal District, Tamil Nadu, India, over five fiscal years spanning 2019–2020 to 2023–2024. The analysis employs secondary data drawn exclusively from the company's annual reports, applying ratio analysis as the primary investigative tool. The specific ratios computed include the current ratio, liquidity ratio (quick ratio), absolute liquidity ratio, fixed asset ratio, debt equity ratio, and proprietary ratio. Findings reveal a consistent downward trajectory in the current ratio, declining from 1.48 in 2019–2020 to 1.31 in 2023–2024, indicating progressive pressure on short-term solvency even as current assets nominally increased in rupee terms. The quick ratio similarly declined from 0.83 to 0.55 over the same period, falling below the standard norm and signalling inadequate control of inventory relative to liquid obligations. The absolute liquidity ratio remained extremely low and largely stagnant, hovering between 0.05 and 0.07, underscoring the firm's minimal immediate cash reserves relative to current liabilities. The fixed asset ratio fluctuated significantly, spiking to 2.81 in 2020–2021 before moderating to 2.07 in 2023–2024, in every year exceeding the ideal benchmark of 0.67. The debt equity ratio exhibited a steady downward trend from 3.19 to 1.58, reflecting a gradual improvement in the balance between external and internal funding, while the proprietary ratio improved marginally from 0.22 to 0.24, demonstrating increasing owner contribution to total assets. Taken together, these indicators portray a firm whose liquidity position warrants managerial attention, particularly regarding inventory control and the speed of debt collection, even as its long-term solvency structure exhibits cautious improvement.

Keywords: *liquidity ratio, solvency, current ratio, debt equity ratio, proprietary ratio, ratio analysis, weaving mill, financial performance*

INTRODUCTION

Financial management occupies a central role in the administration of any business enterprise. As a discipline, it encompasses the

planning, raising, controlling, and administering of funds employed in business operations, with the ultimate objective of ensuring that the firm remains solvent,

efficient, and capable of generating sustained returns for its stakeholders. Financial statement analysis, which involves the systematic examination of the income statement, balance sheet, and related documents, provides the analytical architecture through which the strength and weakness of a firm's financial position can be assessed. For manufacturing firms operating in capital-intensive environments such as the weaving industry, where inventory cycles are lengthy and fixed asset investment is substantial, liquidity and solvency management assume particular importance. Anithaa Weaving Mill Private Limited, incorporated on 7 November 2005 and registered under CIN U17115TZ2005PTC012266 at the Registrar of Companies, Coimbatore, represents one of the prominent cotton grey woven fabric manufacturers and exporters in South India. The company operates from Tiruchengode in Namakkal District, Tamil Nadu, and its activities are classified under NIC code 1711, covering the preparation, spinning, and weaving of textile fibres. This study investigates the liquidity and solvency dynamics of the firm over the five-year period from 2019–2020 to 2023–2024, using ratio analysis as the principal methodology and secondary data sourced entirely from company annual reports.

Susan Ward (2019) argued that financial analysis using ratios between key values helps investors cope with the volume of numerical information contained in company financial statements. Ward demonstrated that the computation of net profit as a percentage of deployed funds enables comparative evaluation across firms, with a higher profit percentage

identifying a superior investment proposition. This foundational position supports the use of ratio analysis as a standardised tool for evaluating firm performance across time. **P.S. Mohana Kumar (2019)** analysed the cotton textile industry by examining the relative performance of public, private, cooperative, and small and medium enterprises within a unified analytical framework. His study concluded that productivity measurements in terms of gross value added per unit of labour, capital, spindle, and raw material reveal that larger firms experience greater capital intensity and lower capital productivity, with higher labour productivity not consistently correlating with firm size. These findings are relevant to the current study insofar as they contextualise asset utilisation patterns in textile manufacturing.

Dr. A. K. Rakshit (2020) provided an overview of the textile industry in India with a particular focus on the decentralised sector, tracing the historical formation of the industry to its handloom origins and documenting the transition of handloom weaving clusters to power-driven looms in pursuit of higher productivity and profitability. His work provides industry-level context for evaluating firm-level financial indicators in the weaving mill segment. **Kennedy and Muller (2020)** explained that the analysis and interpretation of financial statements constitutes an attempt to determine the significance and meaning of financial data, enabling forecasts of future earnings prospects, debt maturity capacity, and dividend policy soundness. Their framework directly informs the interpretive approach adopted in the present study, particularly in evaluating solvency indicators against established industry norms.

Jeemol Unni and Namrata Bali (2021) examined the garment industry in Ahmedabad in the context of national and international policy influences, drawing attention to the subcontracting system that characterises the lower segment of the industry and the dominance of push factors such as high costs and competitive pressure. Their analysis of financial pressures on small manufacturers illuminates the structural environment within which firms such as Anithaa Weaving Mill manage their current obligations. **Simpson and Shetty (2021)** undertook a comprehensive study of India's textile and apparel industry, analysing structural problems, market access barriers, and government measures to enhance competitiveness in the post-Multi Fibre Agreement era. Their exploratory methodology, involving in-depth interviews with officials across major textile promotion bodies, underscores the complex operating environment that shapes the financial decisions of Indian textile manufacturers.

Meenakshi (2022) studied the opportunities that the World Trade Organization framework would provide to the Indian textile industry, emphasising the need for new capacity installation and cost discipline. The study projected that domestic profit margins would improve with rising per capita consumption but warned that export market prices would remain under pressure from international competition, a context that directly bears on the firm's capacity to service debt and maintain solvency ratios. **B. Sabhoo (2023)** examined the problems and prospects of the textile industry with reference to large and small-scale firm productivity, computing output per employee and per unit of invested capital. His finding that large firms yield greater output per

employee than medium firms provides a benchmark for interpreting the asset and capital structure decisions reflected in the solvency ratios of mid-sized weaving operations. **Y. N. Rao (2023)** studied all aspects of the financial position of the Indian cotton textile industry and concluded that policy review regarding excise duty on fabrics, tax reduction, and modernisation incentives is essential to the long-term financial health of the sector. His advocacy for diversified short and long-term financing sources directly informs the debt equity and proprietary ratio findings of the present study.

RESEARCH METHODOLOGY

The study adopts an analytical research design, relying exclusively on secondary data collected from the annual report manuals and accounts of Anithaa Weaving Mill Private Limited, supplemented by information from industry magazines and journals. The data cover five fiscal years from 2019–2020 to 2023–2024. The primary tool of analysis is ratio analysis, which provides a quantitative framework for assessing liquidity, solvency, and capital structure. The ratios computed in this paper include the current ratio, liquidity ratio, absolute liquidity ratio, fixed asset ratio, debt equity ratio, and proprietary ratio. Each ratio is interpreted in relation to conventional benchmarks and in the context of year-on-year directional change. A trend analysis of current assets, current liabilities, and working capital is also incorporated to supplement the static ratio comparisons with a longitudinal perspective.

DATA ANALYSIS AND INTERPRETATION

The current ratio, defined as current assets divided by current liabilities, declined

continuously from 1.48 in 2019–2020 to 1.31 in 2023–2024. While a ratio above 1 confirms that current assets exceed current liabilities across all five years, the downward trend reflects an acceleration in current liabilities relative to current assets, with liabilities growing from 179.43 to 291.20 in rupee terms against assets growing from 265.25 to 380.85. The consistent fall below the conventional benchmark of 2:1 warrants management attention, as it limits the firm's buffer against short-term financial shocks. The liquidity ratio, which excludes inventory and prepaid expenses from the numerator, declined from 0.83 in 2019–2020 to 0.55 in 2023–2024, remaining below the standard norm of 1:1 throughout the study period. This trend reveals a linear relationship with the current ratio and indicates that the firm carries a disproportionately high level of stock relative to its liquid assets, resulting in inadequate control of its inventory position and a reliance on non-liquid current assets to meet short-term obligations.

The absolute liquidity ratio, which restricts the numerator to cash and bank balances, remained extremely low throughout the study period, moving from 0.05 in 2019–2020 to a peak of 0.07 in 2020–2021 before returning to 0.05 in 2023–2024. These values are substantially below the accepted benchmark of 0.50, signalling that the firm maintains very limited immediate cash resources relative to its current liabilities. Although this is not uncommon in manufacturing contexts where working capital is tied up in inventory and receivables, the absolute liquidity position merits monitoring to ensure that the firm can meet emergent obligations. The fixed asset ratio, which expresses the relationship between fixed assets

and long-term funds, exceeded the ideal benchmark of 0.67 in every year of the study. The ratio stood at 1.55 in 2019–2020, spiked to 2.81 in 2020–2021 following a significant expansion in the net block, then declined progressively to 2.07 in 2023–2024 as long-term funds increased from 124.63 to 183.30. The persistent elevation above the ideal indicates that the firm's long-term investment in fixed assets significantly exceeds its long-term funding base, implying reliance on short-term sources to partially finance long-term assets, which elevates financial risk.

The debt equity ratio, computed as total long-term debt divided by shareholders' funds, exhibited a sustained downward trend from 3.19 in 2019–2020 to 1.58 in 2023–2024. This trend reflects the simultaneous reduction in long-term debt, which fell from 340.12 to 290.69, and the steady increase in shareholders' funds from 106.42 to 183.30. While the absolute level of the ratio indicates continued dependence on debt financing relative to equity, the directional improvement suggests that the company is progressively strengthening its internal equity base, which has favourable implications for long-term solvency. The proprietary ratio, defined as shareholders' funds divided by total tangible assets, improved marginally from 0.22 in 2019–2020 to a trough of 0.17 in 2020–2021 before recovering to 0.24 in 2023–2024. This modest increase reflects growing owner contribution to the total asset base and demonstrates that proprietors have maintained and incrementally expanded their proportional stake in the company's assets across the study period. The trend is consistent with the improvement observed in the debt equity ratio and collectively indicates a gradual

strengthening of the firm's long-term financial structure.

The trend analysis of current assets, current liabilities, and working capital, indexed to a base of 100 in 2019–2020, reveals that by 2023–2024 current assets had grown to an index of 143.58 and current liabilities to 162.29, while working capital had grown to only 104.46. The faster growth of current liabilities relative to current assets explains the declining current and liquidity ratios and underscores the need for the firm to exercise tighter control over its short-term obligations.

FINDINGS

The current ratio declined continuously from 1.48 in 2019–2020 to 1.31 in 2023–2024, indicating progressive deterioration in short-term solvency coverage even as both current assets and current liabilities grew in absolute terms. The liquidity ratio declined from 0.83 to 0.55 over the same period, remaining below the standard norm throughout and reflecting inadequate control over inventory as a component of current assets. The absolute liquidity ratio hovered between 0.05 and 0.07 across all five years, remaining far below the 0.50 benchmark and confirming minimal immediate cash availability relative to short-term liabilities. The fixed asset ratio fluctuated from 1.55 in 2019–2020 to a peak of 2.81 in 2020–2021 before declining to 2.07 in 2023–2024, in every year exceeding the ideal of 0.67, indicating sustained over-investment in fixed assets relative to long-term funding sources. The debt equity ratio declined steadily from 3.19 to 1.58, reflecting a meaningful reduction in long-term debt concurrent with growth in shareholders' funds, and signalling an improving but still leverage-heavy capital

structure. The proprietary ratio improved from 0.22 in 2019–2020 to 0.24 in 2023–2024, confirming that the owners have maintained and modestly increased their proportional contribution to total tangible assets.

SUGGESTIONS AND CONCLUSION

The analysis of liquidity and solvency ratios at Anithaa Weaving Mill over five fiscal years reveals a firm whose short-term financial position is under incremental pressure even as its long-term structure shows cautious improvement. To address the declining liquidity ratios, the management should prioritise inventory reduction and accelerate debt collection, as the slow recovery of book debts has been identified as a primary contributor to the widening gap between liquid assets and current liabilities. Idle stock that has remained in the company for extended periods should be cleared to release working capital. Short-term funds should be directed more efficiently into operational cycles rather than allowed to remain tied up in low-velocity current assets. The fixed asset ratio, which has consistently exceeded the ideal benchmark, indicates a need for greater alignment between capital expenditure decisions and the long-term funding base. The improving debt equity and proprietary ratios, however, provide grounds for qualified optimism regarding the firm's longer-term solvency trajectory. On balance, the financial position of Anithaa Weaving Mill as revealed through liquidity and solvency analysis is satisfactory but not optimal, and targeted managerial intervention in inventory management and debtor collection is necessary to sustain and improve upon the current position in the years ahead.

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