

Financial Health of Luke Export at Padanthalumoodu

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Abstract

The financial health analysis of Luke Export evaluates organizational stability by focusing specifically on ratio analysis and the cash conversion cycle. Ratio analysis serves as the primary diagnostic tool to measure liquidity and profitability, identifying the firm's core financial strengths and weaknesses over time. Complementing this, the cash conversion cycle is analyzed to determine how efficiently the company manages its working capital and transforms its resources into liquid cash within the seafood export sector. Ultimately, the study seeks to fulfill its two objectives: to assess the operational efficiency and management of the cash conversion cycle and to provide meaningful insights and recommendations to stakeholders. By focusing on these areas, the analysis ensures that management can identify resource bottlenecks and make informed, strategic decisions to improve the firm's future financial trajectory.

Keywords: Cash Conversion Cycle, Financial Health, Liquidity, Ratio Analysis, Profitability, Solvency.

Introduction

The financial health analysis of Luke Export evaluates the firm's fiscal stability and operational performance within the volatile seafood export industry. Utilizing ratio analysis as a core diagnostic tool, the study assesses key indicators of liquidity, profitability, and solvency to determine the company's ability to meet short-term obligations while sustaining long-term growth. This quantitative approach identifies the critical financial trends that define the firm's resilience against international trade risks and fluctuating market demands.

Beyond baseline stability, the research scrutinizes the cash conversion cycle to measure how efficiently the organization manages its working capital and transforms resources into liquid cash. This analysis directly supports the study's final two objectives: to assess operational efficiency and to provide actionable recommendations for stakeholders. By synthesizing these insights, the study offers a strategic roadmap for management to optimize resource flow, overcome liquidity bottlenecks, and make informed financial decisions to secure the firm's future.

Review of Literature

Dyah Puji Lestari et al. (2025) studied the impact of digital finance on financial performance and found that digital financial services and financial inclusion improve profitability, operational efficiency, and working capital management of businesses. Dr. S. K. Singh (2025) analyzed the financial performance of export-oriented units in India and concluded that effective cost control, liquidity management, and technological support are essential for maintaining financial stability and competitiveness in global markets. Cut Nadira Putri Kamal (2024) explained that a balanced debt and equity financing structure improves long-term financial health, profitability, and sustainability of companies. P. Jayashree, A. Mansuraly and S. Sivasubramanian (2024) found that financial performance research is increasingly focused on profitability, liquidity, ESG factors, and digital transformation as important drivers of business growth and resilience. Nawsheen Shaima and Md. Abdur Rashid (2023) stated that export-oriented firms maintain better liquidity and profitability due to access to international markets, which improves financial resilience during economic downturns. Muhammad Fikri and Anisa Putri Yolanda (2023) concluded that maintaining an optimum balance between liquidity and solvency is important for achieving stable financial performance and sustainable growth.

Objectives

- To examine the liquidity and profitability position using relevant financial ratios
- To identify strength and weakness in financial performance to suggest for improving financial health of the organization.

Research Methodology

This study based on analytical research. This research focuses on evaluating the financial health of Luke Export, a seafood processing and export enterprise, over a five-year period from 2021 to 2025. The study employs analytical tools such as ratio analysis, trend analysis, and the cash conversion cycle to assess the firm's liquidity, profitability, and solvency. The findings reveal that while the company maintains an exceptionally high current ratio, indicating a robust ability to meet short-term obligations, its immediate liquidity (Quick Ratio) has declined as significant capital is increasingly tied up in inventory. Furthermore, although the company has expanded its total asset base and demonstrated high gross profit margins through operational efficiency, the net profit remains relatively slim due to high indirect expenses. Ultimately, the study concludes that Luke Export possesses a strong and resilient financial foundation with a conservative capital structure, but it recommends more scientific inventory management and stricter cost controls to ensure long-term sustainable growth in the competitive global market.

Data Analysis and Interpretation

Ratio Analysis

Ratio analysis is a financial tool used to evaluate the financial performance and position of a company. It helps to analyse the relationship between different financial variables such as assets, liabilities, sales, and profit. Through ratio analysis, the liquidity, profitability, and solvency position of the company can be measured.

Current Ratio

Table 1.1 Current Ratio

Year	Ratio
2020-2021	15.39
2021-2022	15.28
2022-2023	12.29
2023-2024	8.48
2024-2025	16.47

Source: Annual Report of Luke Export

The current ratio measures a firm’s ability to meet its short-term obligations using its current assets, with a 2:1 ratio typically considered the industry benchmark. Between 2020 and 2022, Luke Export maintained exceptionally high liquidity levels of 15.39 and 15.28, which then experienced a gradual decline to a low of 8.48 in 2023–2024. This drop occurred due to a substantial increase in current liabilities. However, the ratio rebounded sharply to 16.47 in 2024–2025 because the firm achieved a nearly 50% reduction in liabilities while maintaining high asset levels, indicating a robust liquidity position with minimal short-term risk.

Quick Ratio

Table 1.2 Quick Ratio

Year	Ratio
2020-2021	13.29
2021-2022	4.77
2022-2023	5.24
2023-2024	3.22
2024-2025	2.01

Source: Annual Report of Luke Export

The quick ratio assesses a company’s ability to pay immediate debts using only its most liquid assets, such as cash and receivables, by excluding inventory. The ideal industry benchmark for this ratio is 1.0. Luke Export’s quick ratio began at a very high 13.29 in 2020–2021 but dropped to 4.77 the following year as inventory levels surged from 3.9 crore to over 25.5 crore, tying up liquid capital. By 2024–2025, the ratio reached its lowest point of 2.01 because a larger portion of assets was held in stock rather than cash. While still well above the benchmark, this shift indicates the firm has become more dependent on effective inventory management.

Gross Profit Ratio

Table 1.3 Gross Profit Ratio

Year	Ratio
2020-2021	9.18
2021-2022	16.16
2022-2023	11.19
2023-2024	15.62
2024-2025	29.95

Source: Annual Report of Luke Export

The gross profit ratio indicates the relationship between gross profit and net sales, reflecting how much profit a business earns after deducting production or trading costs. This ratio rose from 9.18% in 2020–2021 to 16.16% in 2021–2022, signaling improved production efficiency or pricing strength. Despite sales peaking at over 78 crore in 2022–2023, the ratio fell to 11.19%, likely due to increased material costs or heavy discounting. It jumped significantly to 29.95% in 2024–2025 because gross profit remained near record highs even as total sales hit a five-year low, suggesting a successful strategic pivot toward higher-margin products.

Net Profit Ratio

Table 1.4 Net Profit Ratio

Year	Ratio
2020-2021	0.86
2021-2022	1.21
2022-2023	0.42
2023-2024	0.82
2024-2025	1.75

Source: Annual Report of Luke Export

The net profit ratio measures overall profitability by showing the percentage of revenue remaining after all operating expenses, interest, and taxes are deducted. Luke Export’s net profit ratio peaked at 1.21% in 2021–2022 but fell sharply to 0.42% in 2022–2023. This decline happened because, even with record-high sales of 78.15 crore, profitability was hampered by a surge in overall expenses. The ratio eventually recovered to 1.75% in 2024–2025, reaching its five-year high and indicating better overall cost control and more effective conversion of sales into actual profit.

Operating Profit Ratio

Table 1.5 Operating Profit Ratio

Year	Ratio
2020-2021	5.61
2021-2022	10.90
2022-2023	6.01
2023-2024	7.99
2024-2025	18.56

Source: Annual Report of Luke Export

The operating profit ratio evaluates a company’s operational efficiency by measuring the profit generated from core business operations before interest and taxes. A higher operating profit ratio indicates that the company is managing its variable production and operating costs effectively relative to its sales. This ratio acts as a critical tool for management and investors to assess how well the core business is performing independently of financial structure or tax obligations. According to the study’s framework, this ratio complements the net profit analysis by isolating the efficiency of day-to-day business activities.

Cash Conversion Cycle

The Cash Conversion Cycle (CCC) measures the time taken by a business to convert its investments in inventory and other resources into cash flows from sales. It shows how efficiently a company manages its working capital by tracking the movement of cash through operations. A shorter cycle indicates that the company quickly recovers cash, while a longer cycle suggests delays in collecting money or selling stock.

Table 1.6 Cash Conversion Cycle

Year	Cash Conversion Cycle
2020-2021	62
2021-2022	162
2022-2023	172
2023-2024	326
2024-2025	554

Source: Annual Report of Luke Export

The analysis of the Cash Conversion Cycle (CCC) reveals a significant and concerning upward trend, with the cycle increasing drastically from 62 days in 2020-2021 to 554 days by 2024-2025. This indicates that the company is taking much longer to convert its investments in inventory and other resources into actual cash flow from sales.

Findings

- The company's Current Ratio remained very high during the study, with a ratio of 15.39 in 2020-21 and 16.47 in 2024-25, which means the company had a very good ability to pay off its short-term obligations.
- The Current Ratio has continued to stay high, however the Quick Ratio (Acid-Test) has dropped significantly from 13.29 for 2020-21 to 2.01 for 2024-25.
- The immediate liquidity loss was largely attributed to investment in inventories which increased from around ₹3.9 crore in 2020-21 to more than ₹46.6 crore by 2024-25.
- In 2022-23, total sales have hit a five-year high of more than ₹78 crore, but margins have been hit.
- Even though sales were in their doldrums in 2024-25, the Gross Profit Ratio increased to a high of 29.95%, showing that the production efficiency has improved.
- The Net Profit Ratio was historically poor, ranging from 0.42% to 1.75%, and often gross profits were offset by high indirect costs.
- A big jump came in 2022-23, when the Debt-to-Equity Ratio increased to 0.64 as the company took up a massive loan of ₹24.4 crore from ₹22 lakh, as compared to the previous year.

Suggestions

- The company should use scientific inventory management system like JIT (Just in Time) or ABC analysis to eliminate the unnecessary investment in inventory.
- Management needs to concentrate on managing indirect costs, like administration and interest costs, so that higher gross margins can be translated to higher net profits.
- The sharp decline in sales by 2025 means there is a need for urgent strategic actions such as market diversification or new promotional strategies to restore market share.
- The Current ratio is very high, indicating inefficient use of the resources; the idle funds should

be invested in the productive assets or technological improvement.

- By adopting IoT and big data, the efficiency and traceability of the supply chain can be enhanced, an important factor for preserving the quality reputation of the “Cathay” brand.
- New processing technologies like high-pressure processing (HPP) can help products to have a longer shelf life and improved quality, which can lead to higher market prices.
- Since the company is an exporter, it needs to have a strong financial planning and hedging policies in place to safeguard its foreign exchange rates, which are highly volatile.

Conclusion

Finally, the analysis of Luke Export indicates that the business is very highly financed and has a high level of solvency, making it suitable to pay long-term bills. But there is a definite “weakness” in the company’s ability to convert its resources to cash, as demonstrated in the high volatility of the Cash Conversion Cycle. The company has a good control on production cost and high gross profits, however, it needs to reduce its inventory and control the indirect costs to ensure the overall net profit.

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