

# A Study on Exploring and Financial Health of Lofty Industries Private Limited

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## Abstract

*This study explores and analyzes the financial health of Lofty Industries with the aim of understanding its overall financial performance, stability, and efficiency over a selected period. The research is based on secondary data collected from the company's financial statements, including balance sheets and income statements. Key financial indicators such as profitability ratios and solvency ratios are examined to evaluate the company's operational effectiveness and financial position. The study also applies trend analysis. The findings reveal fluctuations in profitability and financial stability, indicating both growth opportunities and areas of concern. The study provides useful insights for stakeholders to make informed decisions.*

**Keywords:** Financial Health, Profitability, Ratio Analysis, Solvency, Trend Analysis

## Introduction

Financial Health refers to the overall condition and stability of an individual's or organization's financial situation. It encompasses various aspects such as income, expenses, savings, investments, debts, and overall financial management practices. A financially healthy entity typically demonstrates the ability to meet its financial obligations, maintain a positive cash flow, accumulate savings or investments for future needs, manage debts responsibly, and plan for long-term financial goals such as retirement or major purchases. Assessing financial health involves analyzing financial statements, evaluating liquidity, solvency, and profitability, and considering broader economic factors impacting financial stability. The financial health of businesses can be gauged by comparable factors to assess the viability of a company as a going concern. For instance, if a company has revenue coming in and cash in the bank, yet is spending its resources on new investments in production equipment, office space, new hires, and other business services, it may raise questions about the long-term financial health and survivability of the company. Spending money without contributing to a business's stability or

growth can make it hard to cover expenses like utilities and salaries. This might force pay freezes or cuts to keep the business running. These factors can be analyzed by looking at indicators such as net worth, budgeting, emergency funds, and debt management. By understanding financial health, people can achieve personal financial goals.

## Literature Review

Botica Madhukumar et al. (2025).<sup>1</sup> The study titled “Analysis of Financial Health of Select Private Sector Banks” examines the financial stability and performance of selected private sector banks in India. The research focuses on evaluating their financial soundness during periods of banking reforms and economic changes. It uses key financial indicators such as Capital Adequacy Ratio (CAR), Net Profit Margin,

Return on Assets (ROA), and NonPerforming Assets (NPA) to assess profitability, stability, and risk levels. The study also applies the Altman Z-Score model to measure the risk of financial distress and bankruptcy among banks. The Z-Score combines various financial ratios related to liquidity, profitability, solvency, leverage, and market valuation to classify banks into different risk zones.

Omonike Ope Ige-Gbaeyan et al. (2025).<sup>2</sup> The study examines the challenges faced by the South African non-life insurance sector, such as low investment returns, digital transformation needs, and weak achievement of strategic goals, which affect operational efficiency and financial health. It analyzes data from 32 companies between 2008 and 2019 using a descriptive research design and regression analysis. The findings show that liquidity and leverage have a positive impact on financial health, and larger firms benefit more from operational efficiency and profitability improvements.

Xiao Liu, Yanhong Li et al (2024).<sup>3</sup> “Financial Assessment and Diagnosis of Abnormal Data of Listed Companies in Public Health and Wellness Industry” examines the financial performance and risk levels of publicly listed companies in China’s public health and wellness sector. The main objective of the study is to evaluate financial stability and identify potential financial risks, especially during the period affected by the COVID-19 pandemic from 2020 to 2023. The researchers analyzed five listed companies using key financial indicators such as annual revenue, liquidity ratios, and debt-to-equity ratios to assess growth potential and financial health. The study also applied the Z-score model to detect abnormal financial patterns and conducted benchmarking with industry averages to understand competitive positioning. The findings reveal that external market shocks significantly influenced revenue trends, highlighting both the resilience and vulnerability of the industry.

Mayank Jain et al. (2023).<sup>4</sup> This study looks at how different financial factors are connected and how they affect a company’s financial health. The study found that credit risk is the most important factor because it strongly influences other financial aspects. It also shows that solvency, capital adequacy, and Tier 1 capital ratios are very important for a company’s financial stability. The study groups financial factors into different categories based on how they influence each other. Overall, the research helps managers, policymakers, and investors make better financial decisions.

Evalina Ani, Haura Adawiya, Assya Ainum Firanti, (2023).<sup>5</sup> This study describes how solvency, profitability, and liquidity affect profit growth. Solvency is measured by the debt-to-equity ratio, profitability by net profit margin, and liquidity by the quick ratio, while profit growth is calculated based on changes in net income from the previous year. Using quantitative research and purposive sampling, the study analyzes data from selected mining companies listed on the Indonesia Stock Exchange during 2017–2021. The findings show that profitability significantly affects profit growth, whereas solvency and liquidity do not have a significant impact.

## Research Gap

The existing literature on financial health mainly focuses on traditional financial ratios and methods, while there is limited use of advanced techniques such as artificial intelligence and integrated models for comprehensive analysis. Most studies are restricted to specific sectors or industries, with very few making comparisons between public and private sector organizations or across different industries. Additionally, insufficient attention has been given to the impact of external factors like economic crises and market fluctuations on financial performance. There is also a gap in combining short-term aspects such as working capital management with longterm financial stability and risk prediction.

## Research Methodology

An analytical research design focuses on evaluating and interpreting existing data to understand relationships, patterns, and causes. In this research the researcher uses the facts of information that are already available. Analytical research has been chosen because the researcher is using five years balance sheet of the company to analyze and interpret financial data.

## Secondary Data

Secondary data are collected from collected from the company's official website, articles and their past five years annual report from 2021 to 2025 profit and loss account, balance sheet and other financial statements.

## Objectives of the Study

- To study the overall financial position of Lofty Industries Private Limited.
- To evaluate the financial growth of the company.

## Data Analysis and Interpretation

### Ratio Analysis

Ratio analysis is a technique used to evaluate a company's financial performance and identify its financial strengths and weaknesses over a period of time.

### Profitability Ratio

Profitability ratios are financial metrics that measure a company's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, or shareholders' equity. They indicate how efficiently management utilizes resources to create value.

### Gross Profit Ratio

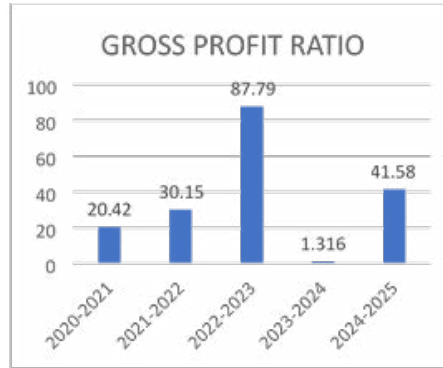
Gross profit ratio is a profitability ratio that shows the relationship between gross profit and net sales, indicating the profit earned from trading and manufacturing activities.

**Table 1 Gross Profit Ratio**

Year	Gross Profit Ratio
2020-2021	20.42
2021-2022	30.15
2022-2023	87.79
2023-2024	1.316
2024-2025	41.58

**Source:** Annual Reports

**Chart 1**



From 2020 to 2023, the company showed strong sales and profitability, with a high profit margin of 87.79% in 2022–2023. However, profitability declined sharply to 1.316% in 2023–2024. In 2024–2025, sales and profit decreased, but the profit margin improved to 41.58%, indicating better profit efficiency despite lower revenue.

**Net Profit Ratio**

Net profit ratio measures overall profitability and shows the company’s efficiency in converting sales into actual profit while effectively managing expenses.

**Table 2 Net Profit Ratio**

Year	Gross Profit Ratio
2020-2021	20.42
2021-2022	30.15
2022-2023	87.79
2023-2024	1.316
2024-2025	41.58

**Source:** Annual Reports

**Chart 2**



In 2020–2021, the net profit ratio was 4.76%, showing a moderate level of profitability. In 2021–2022, the ratio slightly decreased to 3.86%, indicating a small decline in profit efficiency. In 2022–

2023, the net profit ratio increased to 5.20%, showing an improvement in profitability. In 2023–2024, the ratio again decreased to 3.82%, which shows a slight reduction in profit performance. Finally, in 2024–2025, the net profit ratio dropped sharply to 1.72%, indicating a significant decline in profitability during that year.

### Solvency Ratio

A solvency ratio is a key financial metric measuring a company’s ability to meet its long-term debt obligations, indicating long-term sustainability and default risk.

### Debt Equity Ratio

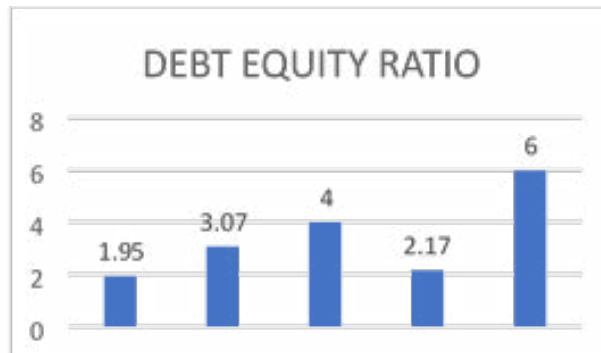
This ratio indicate the relative proportion of debt and equity in financing the assets of a firm. An acceptable norm for this ratio is considered too be 2:1. A high ratio shows that the claim of creditors are greater those of owners. From the point of view of the company the lower this ratio, the less company worry in meeting its fixed obligations.

**Table 3 Debt Equity Ratio**

Year	Debt Equity Ratio
2020-2021	1.95
2021-2022	3.07
2022-2023	4.00
2023-2024	2.17
2024-2025	6.00

**Source:** Annual Reports

**Chart 3**



The table shows that ratio was 1.95 in 2020–2021, reflecting a balanced use of debt and equity. It then increased steadily to 3.07 in 2021–2022 and further to 4.00 in 2022–2023, suggesting a growing dependence on borrowed funds. In 2023–2024, the ratio declined to 2.17, indicating a temporary improvement in equity position or reduction in debt. However, in 2024–2025, the ratio sharply rose to 6.00, highlighting a heavy reliance on debt financing compared to shareholders’ funds.

### Proprietary Ratio

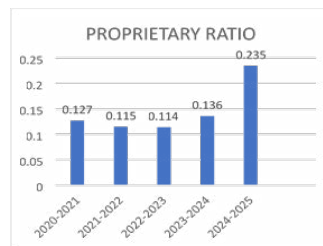
Proprietary Ratio establishes the relationship between shareholder’s or proprietors fund and total assets. This ratio shows how much funds have been contributed by the shareholder’s in the total assets of the firm. Proprietary ratio is also known as equity ratio or net worth ratio

**Table 4 Proprietary Ratio**

Year	Proprietary Ratio
2020-2021	0.127
2021-2022	0.115
2022-2023	0.114
2023-2024	0.136
2024-2025	0.235

Source: Annual Reports

**Chart 4**

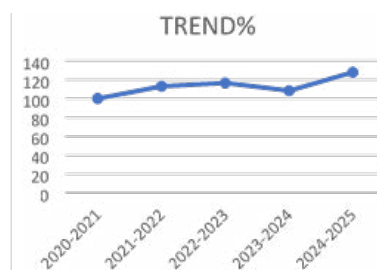


The ratio was 0.127 in 2020–2021 and slightly declined to 0.115 in 2021– 2022 and 0.114 in 2022–2023, indicating a gradual reduction in the contribution of owners’ funds towards total assets. In 2023–2024, the ratio improved to 0.136, showing a moderate increase in equity financing. However, in 2024–2025, the ratio rose significantly to 0.235, suggesting a stronger equity base relative to total assets. Overall, although there was a declining trend in the initial years, the sharp improvement in the final year indicates enhanced financial stability and reduced dependence on external liabilities, as a higher proprietary ratio reflects a better long-term solvency position of the company.

### Trend Analysis

Trend analysis is a technique used to examine and predict movements of an item based on current and historical data

**Chart 5**



Source: Annual Report

**Table 5 Trend of Fixed Assets**

Year	Trend %
2020-2021	100
2021-2022	113.10
2022-2023	116.59
2023-2024	108.26
2024-2025	127.94

**Source:** Annual Reports

In 2020–2021, the trend is 100% as it is the base year. In 2021–2022, it increased to 113.10%, showing growth. In 2022–2023, it further rose to 116.59%, indicating continued increase. However, in 2023–2024, the trend dropped to 108.26%, showing a decline. Finally, in 2024–2025, it sharply increased to 127.94%, indicating strong growth again. Overall, the trend shows an increase in the beginning years, a slight fall in the middle, and a strong rise in the last year.

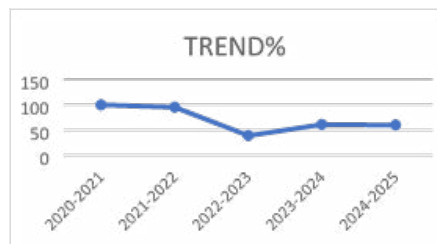
### Trend Analysis of Net Sales

**Table 6 Trend of Net Sales**

Year	Trend%
2020-2021	100
2021-2022	95.42
2022-2023	39.39
2023-2024	61.18
2024-2025	60.12

**Source:** Annual Reports

**Chart 6**



**Source:** Annual Report

The trend analysis shows that in 2020–2021, the value is taken as the base with 100%. In 2021–2022, it slightly decreased to 95.42%, showing a small decline. In 2022–2023, it dropped sharply to 39.39%, indicating a significant fall. In 2023–2024, it improved to 61.18%, showing recovery but still below the base year. In 2024–2025, it slightly decreased again to 60.12%, indicating a small drop compared to the previous year.

### Findings

- The company’s profit margin collapsed from 87.79% in 2022-2023 to 1.316% in 2023-2024 a drop of 86.47 percentage points showing a severe sudden decline in profitability before partially recovering to 41.58% in 2024-2025.
- The net profit ratio fell sharply to 1.72% in 2024-2025 down from 5.20% in 2022-2023

representing a 67% decline in profitability over the 2-year period.

- The debt-equity ratio surged to 6.00 in 2024-2025 compared to 2.17 in 2023-2024 reflecting a 176% increase in debt dependency and signaling high financial risk from heavy reliance on borrowed funds.
- The company spent more on fixed assets but made much less sales by 2024-2025

### **Suggestions**

- The company may consider controlling operating costs more effectively to help improve profit margins and overall efficiency.
- It may be beneficial to focus on increasing sales through improved pricing strategies, marketing efforts, and expansion of product offerings.
- Reducing dependency on debt could help lower financial risk, and gradual repayment of existing loans may support better financial stability.
- Future financial restructuring could be approached with careful planning and gradual implementation to maintain stability.

### **Conclusion**

The overall financial health of the company reflects a mixed performance during the study period. On one hand, the company showed improvement in liquidity position, as seen in the rise of current and quick ratios, indicating a better ability to meet short-term obligations. It also undertook significant restructuring, strengthened shareholders' funds, and expanded its asset base. On the other hand, there was a sharp decline in profitability, unstable profit margins, and a significant increase in debt dependency, which raises concerns about financial risk and sustainability. Based on these findings, it can be understood that while the company has made efforts to improve its operational structure and liquidity, greater attention may be required in controlling costs, improving sales performance, and reducing reliance on borrowed funds. With careful financial planning, efficient resource utilization, and continuous monitoring of performance, the company may gradually move toward a more stable and balanced financial position in the future.

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