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Effective Financial Planning and Forecasting in Achieving Financial Stability at Ethamozhy Coir Cluster Private Limited Elluvilai, Kanyakumari District

R. S. Raasiha

*II MBA, Department of Management Studies
St. Xavier's Catholic College of Engineering (Autonomous), Chunkankadai
Nagercoil, Kanyakumari District, Tamil Nadu, India*

G. Jenit Hanson

*Assistant Professor, Department of Management Studies
St. Xavier's Catholic College of Engineering (Autonomous)
Chunkankadai, Nagercoil, Kanyakumari, Tamil Nadu*

Abstract

This study focuses on financial planning and forecasting as essential tools for achieving financial stability in an organization. It examines how systematic planning helps in estimating future financial needs, managing resources, and improving decision-making. The research is based on secondary data collected from Ethamozhy Coir Cluster Pvt. Ltd. over a period of five years. Various analytical tools such as ratio analysis, linear prediction are used to evaluate financial performance. The study identifies key financial challenges, including liquidity pressure and increased dependence on debt. Effective financial planning and accurate forecasting are crucial for ensuring long-term sustainability and growth of the organization.

Keywords: Debt Management, Decision-Making, Linear Prediction Financial Performance, Liquidity Management, Financial Planning, Financial Forecasting, Financial Stability, Ratio Analysis

Introduction

Financial planning and forecasting involve estimating future financial values to support decision-making and business growth. It helps organizations predict sales, expenses, and profits in changing economic conditions. Forecasting enables firms to anticipate trends and respond effectively to opportunities and risks. Together, they provide a clear roadmap for achieving long-term objectives. Financial plans include budgets, investment decisions, and allocation of resources for various activities. Overall, they play a crucial role in ensuring financial stability, efficient management, and sustainable development of a business.

Literature Review

Anil, Dr. K. Shashidhar, et al. (2025). The authors examine financial planning and forecasting as essential tools for stability and decision-making in dynamic environments. The study concludes that AI-based and machine learning forecasting methods improve prediction accuracy and support better budgeting, investment planning, and risk management. Tom Arnold et al. (2024). Arnold and Moon examine the link between financial statement forecasting and financing decisions, particularly in preparing pro forma statements. The study concludes that forecasting outcomes depend on financing assumptions, and pro forma analysis is most effective when financing sources are clearly aligned with strategic goal Samalla Alekhya et al. (2023) the author explain that effective forecasting reduces business risk and supports informed decision-making through transparent financial information. And financial forecasting and planning help organizations manage cash flow, allocate resources efficiently, and achieve profit goals. Manjunatha B et al. (2023) The Researcher highlight the importance of financial planning and forecasting for digital printing companies in Bangalore, emphasizing the use of historical data and analytical tools to set realistic goals and manage resources efficiently. The study concludes that accurate financial projections and modern data analytics are essential for reducing risk and sustaining competitiveness in a dynamic market. Mohammad Shibli Shahriar et al. (2021) The study reviews various forecasting techniques used in project evaluation and emphasizes that accurate forecasting is crucial for effective financial decision-making. It concludes that selecting appropriate techniques, such as NPV, IRR, Monte Carlo simulation, and AI-based methods, depends on project characteristics and the reliability of forecasting data.

Research Gap

Despite the growing importance of financial planning and forecasting, existing studies provide limited evidence on the practical application of modern technologies in real business environments. Most research depends on secondary or simulated data and gives less importance to integrating traditional financial tools with modern forecasting techniques. There is also limited focus on how financial planning supports effective decision-making and long-term financial sustainability.

Objectives of the Study

- To analyze the financial position of the company using available financial data.
- To evaluate the reliability of forecasting methods in predicting future business performance

Research Methodology

This study adopts an analytical research design to evaluate financial planning and forecasting practices. Secondary data is collected from the company's financial statements and annual reports for a period of five years. Various tools such as ratio analysis, and linear prediction are used for data analysis. The study focuses on assessing financial performance and identifying key trends. This methodology ensures reliable analysis and supports meaningful conclusions

Data Analysis

Ratio Analysis

Ratio analysis is a quantitative method of evaluating a company's financial health, performance, and trends by comparing key line items from financial statements. It allows stakeholders to assess profitability, liquidity, and efficiency by comparing ratios over time or against industry benchmarks

Table 1 Current Ratio

Year	Ratio
2019-2020	1.01
2020-2021	1.10
2021-2022	1.06
2022-2023	0.74
2023-2024	0.74

Source: Annual Reports

The current ratio remained stable from 2019–2020 to 2021–2022, indicating a satisfactory liquidity position. A sharp decline to 0.74 in 2022–2023 shows that current liabilities exceeded current assets. The ratio remained low in 2023–2024, reflecting continued pressure in meeting short-term obligations.

Table 2 Quick ratio

Year	Ratio
2019-2020	0.57
2020-2021	0.56
2021-2022	0.58
2022-2023	0.16
2023-2024	0.26

Source: Annual Reports

The quick ratio remained stable from 2019–2020 to 2021–2022, showing a moderate liquidity position. It dropped sharply to 0.16 in 2022–2023, indicating weak ability to meet short-term obligations. Although it improved to 0.26 in 2023–2024, it remained below the desired level, reflecting continued liquidity pressure.

Table 3 Net Profit Ratio

Year	Ratio
2019-2020	-0.96
2020-2021	-0.14
2021-2022	-0.02
2022-2023	0.04
2023-2024	0.00

Source: Annual Reports

The net profit ratio of ECC improved steadily from a loss of -0.96 in 2019–2020 to a profit of 0.04 in 2022–2023, indicating better performance over time. In 2023–2024, it declined to 0.00, showing a break-even position. This trend reflects fluctuations in profitability and the need for consistent earnings and effective cost control.

Table 4 Debt Equity Ratio

Year	Ratio
2019-2020	4.68
2020-2021	5.32
2021-2022	5.41
2022-2023	42.37
2023-2024	51.04

Source: Annual Reports

The Debt–Equity Ratio increased steadily from 4.68 in 2019–2020 to 5.41 in 2021–2022, and then rose sharply to 51.04 in 2023–2024. This indicates a growing dependence on borrowed funds over equity. The trend highlights increased financial risk and the need to maintain a balanced capital structure.

Table 5 Debt Asset Ratio

Year	Ratio
2019-2020	0.79
2020-2021	0.81
2021-2022	0.82
2022-2023	0.98
2023-2024	0.98

Source: Annual Reports

The Debt–Asset Ratio increased from 0.79 in 2019–2020 to 0.82 in 2021–2022, and then rose sharply to 0.98 in 2022–2023, remaining the same in 2023–2024. This shows a high reliance on debt for financing assets. The trend indicates increased financial risk and reduced stability due to heavy dependence on borrowed funds.

Linear Prediction of Sales 2019-2020 to 2023-2024

Table 5.6 Calculations under Linear Prediction

Year	(x)	Sales(Y)	$X = X - X\bar{X}$	X^2	XY
2019-2020	1	32,07,290.42	-2	4	-64,14,580.84
2020-2021	2	55,56,869.71	-1	1	-55,56,869.71
2021-2022	3	1,23,91,600.00	0	0	0.00
2022-2023	4	1,83,57,600.00	1	1	1,83,57,600.00
2023-2024	5	2,43,00,700.00	2	4	4,86,01,400.00
Total	$\Sigma(x)=15$	$\Sigma(y)= 6,38,14,060.13$	$\Sigma(X)=0$	$\Sigma(X^2)= 10$	$\Sigma(XY)= 5,49,87,549.45$

Source: Annual report

Forecast of Next 6 Years are

Table 8 Net Sales 2024-2025 to 2029-2030

Year	Forecast Value
2024-2025	2,92,59,076.88
2025-2026	3,47,57,831.83

2026-2027	4,02,56,586.78
2027-2028	4,57,55,341.73
2028-2029	5,12,54,096.68
2029-2030	5,67,52,851.63

Source: Annual Reports

It can be inferred that the projected net sales for the period from 2024–2025 to 2029–2030 range between 2,92,59,076.88 and 5,67,52,851.63. The consistent upward trend indicates steady growth in sales performance over the years and reflecting improving business operations and demand conditions. The gradual increase each year suggests a stable expansion rather than sudden fluctuations. The higher values in the later years highlight a positive financial outlook are indicating sustained growth.

Findings of the Study

- The current ratio remained stable and satisfactory from 2019–2020 to 2021–2022, indicating good short-term liquidity. It declined sharply to 0.74 in 2022–2023 and continued in 2023–2024, showing that current liabilities exceeded current assets which reflect increasing liquidity pressure.
- The quick ratio showed a consistently low trend throughout the period and dropped significantly to 0.16 in 2022–2023, with a slight recovery to 0.26 in 2023–2024. This indicates weak immediate liquidity and high dependence on inventory for meeting short-term obligations.
- The net profit ratio improved gradually from -0.96 in 2019–2020 to a positive 0.04 in 2022–2023, showing recovery from losses. However, it declined again to 0.00 in 2023–2024, indicating the company failed to sustain profitability.
- The debt-equity ratio increased steadily from 4.68 in 2019–2020 to 51.04 in 2023–2024, indicating excessive reliance on borrowed funds. This sharp increase highlights a high financial risk and weak capital structure.
- The debt-asset ratio also rises from 0.79 to 0.98 over the period and it showing that almost all assets are financed through debt. This indicates aggressive expansion but also exposes the company to higher financial instability.
- Linear prediction analysis shows a steady increase in future sales from 2024–2025 to 2029–2030 and reflecting a positive growth outlook and stable long-term performance expectations.

Suggestions of the Study

- The organization can accelerate receivables collection through strict credit control and timely follow-ups. Better management of payables by negotiating favorable credit terms can reduce short-term pressure and to strengthen liquidity.
- To improve immediate liquidity the firm can reduce excess inventory through proper demand forecasting and stock control. Maintaining sufficient cash reserves helps meet obligations without depending on inventory.
- Improving profitability requires controlling operating expenses through effective budgeting and cost management practices. Increasing sales through better pricing and marketing strategies supports stable profit growth.
- The company can repay high-interest debts and avoid unnecessary borrowings by raising funds through equity and retained earnings will improve financial stability and to reduce financial risk.
- To enhance capital structure the firm can maintain a proper balance between debt and equity. Financing assets through internal funds instead of excessive borrowing improves long-term strength.

- Achieving sustainable growth requires proper financial forecasting and budgeting techniques. Aligning future sales targets with market demand ensures long-term stability.

Conclusion

The study on effective financial planning and forecasting at Ethamozhy Coir Cluster Private Limited, Elluvilai, highlights the crucial role of structured financial planning and forecasting in ensuring financial stability and sustainable growth of the organisation. By systematically analysing historical financial data and applying tools such as Ratio Analysis and Linear Prediction, the study evaluates the company's financial performance over a five-year period from 2019–2020 to 2023–2024. The analysis indicates that while the organisation has achieved growth in terms of assets and operational expansion, it faces challenges related to liquidity constraints, inconsistent profitability, and increased reliance on debt financing. Despite these challenges, the company's financial planning and forecasting practices provide a moderate level of support in guiding decision-making and managing financial resources. The organisation demonstrates a developing financial position and to strengthen cash flow management, improve profit consistency, and maintain a balanced capital structure to achieve long-term financial stability.

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