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IMPACT OF FINANCIAL RISK FACTORS ON CORPORATE PERFORMANCE: A CASE STUDY OF THE INDIAN TEXTILE INDUSTRY

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ABSTRACT

This study examines the influence of financial key factors on corporate performance of the Indian Textile Industry, bridging the gap in empirical studies with respect to the risk and profitability relation. Specifically, the research looks at the liquidity risk, credit risk, operational risk, inflationary risk, and interest rate risk in terms of their impacts on the profitability of firms as measured by the return on assets (ROA) over the time period 2015-2023. Secondary financial data from 10 Indian textile listed companies provided a balanced panel of 90 firm-year observations. Using random effects panel regression with robust standard errors, the study evaluates the stated purposes of quantifying the single and joint effects of financial risk determinants on performance. Results show that credit risk has a significant negative effect on ROA ($\beta = –0.086$; $p < .01$), while operational risk ($\beta = .114$; $p < .01$) and inflationary risk ($\beta = .529$; $p < .01$) exhibit positive associations with profitability. Liquidity risk and Interest rate risk are not statistically significant. Among the control variables, the firm growth has a positive effect on ROA, but the firm age shows a negative effect. The results show that appropriate credit and operational risk management could improve performance in textile companies. The study concludes with some recommendations for the firm managers to strengthen credit controls and operational processes, and for policymakers to support risk-resilient business environments. These findings help to advance the understanding of the impacts of financial risk in emerging markets and to inform risk management practices in the strategic enterprise arena.

Keywords: Financial Risk, Corporate Performance, Textile Industry, Structured Panel Data Analysis, Emerging Markets.

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INTRODUCTION

The textile industry is one of the foundations of emerging economies and is a major source of employment, exports, and economic growth. In India itself, the sector represents a significant share of the industrial output and foreign exchange earnings to support the lives of millions of workers throughout the supply chain (Reddit insights, 2025). Despite its economic importance, the industry is highly vulnerable to several sorts of financial risk factors that impact the result of corporate performances, like liquidity risk, credit risk, operational risk, inflationary pressures, and interest rate fluctuations.

Prior literature in related manufacturing and non-financial industries, for example, suggests that financial risk determinants have material implications for firm profitability and sustainability (Baby et al., 2024). For example, liquidity and leverage ratios, as well as macroeconomic factors, have a profound effect on financial performance metrics such as return on assets (ROA) and return on equity (ROE). Although such empirical evidence is robust for general manufacturing sectors, there is little research discussing how important financial risk factors influence the performance of firms that operate in the textile industry, particularly in the Indian scenario. Furthermore, macroeconomic uncertainty and industry-specific issues consisting of unstable raw material costs, inflation, and varied interest charges represent additional layers of financial peril that may influence the profitability (Winarto et al., 2024). This study seeks to close these loopholes by systematically analysing a panel of Indian listed textile companies over the period 2015-2023, providing new insights into the risk-performance nexus in this sector.

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Problem Statement

The Indian textile industry works in a financial environment with the attached macro-economic pressures, but there is little empirical evidence regarding the specific financial risk determinants that contribute to a significant profitability impact on the firms. While general manufacturing literature points out the significance of liquidity, credit risk and macroeconomic indices in determining the result of financial performances (Baby et al., 2024), there is a need for more focused research, particularly in the textile industry - an industry with high employment and export intensity and hence with high vulnerabilities to financial risk exposures.

Research Objectives

The general objective of this study is to empirically investigate the influence of financial risk factors on the corporate performances of the listed textile firms in India. To accomplish this goal, the following specific objectives are set in this research study:

- To find the correlation between liquidity risk and the performance of textile companies listed in India.

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- To identify the role of credit risk in the profitability of the Indian textile enterprises.
- To study the impact of operational risk on the financial performance of a firm in the Indian textile industry.
- To assess the effect of inflationary risk on the profitability of Indian textile firms for the study period.
- To examine the impact of interest rate risk on the outcome of corporate performance.

LITERATURE REVIEW

Financial risk factors are well recognized as important factors in the corporate world of industries like the manufacturing industry and the textile industry. Previous research has focused on the effect of financial risks on profitability indicators such as return on assets (ROA) and return on equity (ROE) as reflected in liquidity constrictions, credit exposure, operational uncertainties, and macroeconomic influences (Yousif et al., 2023; Saddiqa et al., 2024). Research has been conducted in the textile industry and literature in the same direction, in which the management of working capital, such as liquidity ratios, is highly correlated with financial performance. Yousif et al. (2023) empirically demonstrate that efficient working capital practices enhance the profitability measures in the textile industry in Pakistan, which has some structural similarities with the Indian case.

Liquidity risk is a measure of the firm's capacity to meet its short-term obligations without facing a headache. While there are several studies that highlight the positive role of liquidity in the improvement of profit margins (Saddiqa et al., 2024), some studies have suggested that overly high liquidity might be indicative of underutilized resources (Saddiqa et al., 2024). On the other hand, credit risk, which is in some ways captured by non-performing assets or receivables turnover, tends to deplete profits because of higher provisioning and borrowing costs (Sharif et al., 2024).

Operational risk of internal process deficiencies and external disruptions has become increasingly important as well, especially under supply chain volatility and inflationary environments. Operational inefficiencies have been associated with reduced asset utilisation, compressing profit ratios (International Journal of Commerce and Management Research, 2024). In addition, macroeconomic risk factors, for example, inflationary risks and interest rate changes, can change the cost structure and funding costs, and consequently impact performance outcomes. Studies from emerging markets suggest that rising interest rates and inflation are making things less profitable due to increased financial costs and low demand (Frontiers Research Insights, 2022).

While previous studies suggest the relevance of financial risk dimensions, most of them only investigate single types of risks or empirically explore a limited set of determinants. Comprehensive panel studies that analyze multiple financial risk factors together, particularly in the Indian textile scenario so far, are limited. This gap provides motivation for the present study, which examines the impact of liquidity risk, credit risk, operational risk, inflationary risk, and interest rate risk on corporate performance over a multi-year period.

Theoretical Framework

The theoretical base for this study is based on the understanding of Modern Portfolio Theory (MPT) and Resource-Based View (RBV), which explains the possibility of risk exposures, thereby influencing the performance of companies.

Modern Portfolio Theory (MPT)

Modern Portfolio Theory, which was first conceived in the name of optimising asset allocation in an environment of uncertainty, determines risk and return to be the fundamental components of performance evaluation. Though classically used in the field of investment finance, the underlying principle that companies should control risk exposures to maximize the expected returns is generalizable to corporate financial management (Markowitz, 1952; MPT concept). Within the context of the corporate world, risk factors such as liquidity, credit and inflation may be seen in a similar fashion to the risks in a portfolio that need to be balanced for greater profitability. Hence, companies that manage their risk exposures well can have more efficient returns on assets.

Resource-Based View (RBV)

The Resource-Based View is based on the belief that the performance of a firm is due to distinct, internal capabilities and resources. Financial risk attributes - such as liquidity management systems, credit control processes, and the efficiency of operations - can be taken as critical resources contributing to a sustainable competitive advantage if they are managed effectively. RBV suggests that companies with superior internal risk management capabilities are better able to weather the financial storms from without and maintain high levels of performance. Therefore, determinants of financial risk are not only pressures from the outside but also strategic resources that help set the profitability.

Together, these theories justify the research's investigation of financial risk determinants and their impact on the performance of the firms. MPT offers a rationale for risk-return trade-offs from a macro perspective, and RBV offers a perspective from an internal capability perspective. The combination of these frameworks makes the application of the empirical study of financial risks and corporate performance measures justified.

Conceptual Framework

The general conceptual framework organized in this study is the hypothesized relationships between the financial risk determinants and corporate performance (ROA), and the relevant control variables. In line with the theoretical insights developed by MPT and RBV, profitability outcomes are affected by risk exposures through external macroeconomic forces and internal firm capabilities in the model.

Independent Variables (Financial Risk Factors):

- Liquidity Risk - the capacity of companies to satisfy short-term debts.
- Credit Risk - Risk caused by Trade Receivables and Defaults

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- Operational Risk - failure of process or systems
- Inflationary Risk - the effect of changes in the price level on the costs
- Firm Size - total assets/market capitalization
- Firm Age - years since establishment
- Firm Growth - measured in terms of change in total sales/revenue.

Dependent Variable:

- Corporate Performance (Return on Assets (ROA))

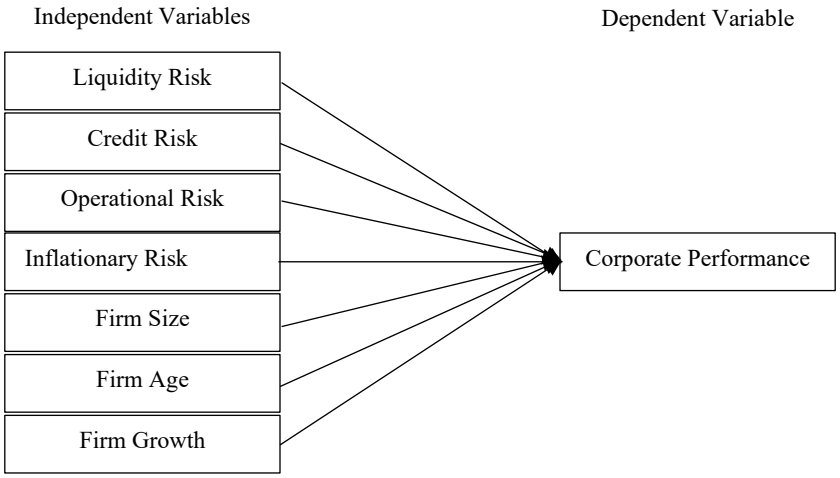


Figure 01: Conceptual Framework

Study Hypotheses

H_1: Liquidity risk has a significant effect on the corporate performance of listed textile firms in India.

H_2: The credit risk significantly affects the corporate performance of listed textile firms in India.

H_3: Operational risk has a significant impact on the corporate performance of the listed textile firms in India.

H_4: There is a significant impact of inflationary risk on the corporate performance of the listed textile firms in India.

H_5: Interest rate risk has a significant impact on the corporate performance of textile-listed firms in India.

H_6: Firm growth has a significant impact on the corporate performance of listed textile firms in India.

H_7: Firm size has a significant impact on the corporate performance of the listed textile firms in India.

H_8: There is a significant relationship between firm age and the corporate performance of listed textile firms in India.

RESEARCH METHODOLOGY

Research Design

This research study is aimed at using a quantitative research design to empirically study the effect of financial risk factors on corporate performance among the textile listed firms in India. A quantitative design is suitable given the nature of research questions involving the estimation of relationships that exist between measurable financial variables using statistical techniques. Specifically, the study uses a panel data approach that combines cross-sectional data of multiple firms during a multi-year period (2015-2023). Panel data methodology allows between-firm and within-firm variations to be analyzed, making the estimators more reliable and efficient than pure cross-sectional or time series analysis (Baltagi, 2021). Panel regression models also manage unobserved heterogeneity and mitigate the bias caused by omitted variables.

Data Sources and Selected Samples

The study uses secondary data acquired from audited financial statements of the Indian textile industry listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The data on finance was taken from recognized financial databases, namely CMIE Prowess and annual reports, which were published on firm websites. The sample contains firms that are listed on a regular basis, at least nine consecutive years (2015-2023), leading to a balanced panel dataset of 90 firm-year observations. Firms with incomplete financial records or missing data for key variables were omitted to ensure the integrity of the data. The use of annual secondary data and a panel framework is in line with previous profitability and risk studies in emerging markets (e.g., Arouri et al., 2020; Frontiers Research Insights, 2022; Saddiqa et al., 2024).

Variables and Measurement

The variables included in the study are defined as and measured as follows:

Dependent Variable

Corporate Performance: proxied by Return on Assets (ROA), defined as net income divided by the total assets in the company, indicates that an effective organization has minimal waste of assets for performance [Ross. Nikita et al., 2022]

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Independent Variables

- Liquidity Risk: measured by the current ratio or cash ratio, and this is the capacity of a firm to fulfil its short-term obligations.
- Credit Risk: proxied by receivables turnover; non-performing assets ratio.
- Operational Risk: measured by operational cost ratios, e.g., operating expense in relation to total assets.
- Inflationary Risk: annual inflation rate based on CPI data from the Indian Ministry of Statistics
- Interest Rate Risk: proxied by annual average lending interest rates extracted from the Reserve Bank of India.

Control Variables

- Firm Size: Natural logarithm of total assets.
- Firm Age: Number of years since firm establishment.
- Firm Growth: percentage rate of change in the total sales revenue per year.

These approaches to measurement are in consonance with current studies on the relationship between firm performance and financial risk (see Frontiers Research Insights, 2022; Saddiqa et al., 2024; Turnbull & Robinson, 2023).

Model Specification and Estimation Technique

To estimate the effects of financial risk determinants on corporate performance, the study specifies a **panel regression model** of the form:

$$\text{ROA}_{it} = \alpha + \beta_1 \text{Liquidity Risk}_{it} + \beta_2 \text{Credit Risk}_{it} + \beta_3 \text{Operational Risk}_{it} + \beta_4 \text{Inflationary Risk}_{t} + \beta_5 \text{Interest Rate Risk}_{t} + \gamma \text{Controls}_{it} + \varepsilon_{it}$$

where $i$denotes firm and tDenotes year.

The model is estimated with random effects panel regression because results from the preliminary tests (Breusch-Pagan Lagrange Multiplier Test and Hausman test) suggested that the random effects regression model is statistically preferable to the pooled OLS or fixed effects model for this database. The selection of panel data estimators is the best practice of panel research based on the latest studies that examine the profitability determinants using panel research techniques (Frontiers Research Insights, 2022; Saddiqa et al., 2024). Also, robust standard errors are used to address problems of heteroscedasticity and within-panel autocorrelation that are common disturbances when studying panel data (Wooldridge, 2010).

Tests and Validation of the Model

Before performing the final estimation, the study performs several diagnostic tests to ensure the appropriateness and validity of the results of the model. These include:

- Checking for Multicollinearity with the Variance Inflation Factor (VIF) to make sure that predictor variables are independent.
- Heteroscedasticity tests (Breusch - pagan/Cook-Weisberg) to evaluate for non-constant error variance.
- Auto-correlation Tests (Wooldridge test) to investigate serial correlation in the data residuals in the panels.
- Specification tests (Hausman test) to decide between fixed and random effects.

These procedures are routine in quantitative panel research and are advised to guarantee good and unbiased coefficient estimates (Baltagi, 2021; Wooldridge, 2010).

Ethical Considerations

The research uses all publicly available secondary financial information. All data used is official company reports and reputable financial databases. No human subjects are involved, and as such, no ethical approval or participant consent is needed. Firm identities and data (academic integrity and transparency to create replication and validation)

Limitations of the Methodology

Although there are rigorous results with panel regression, there are still some limitations. For instance, unobserved macroeconomic shocks or industry-specific events that are not captured fully by the model may have an influence on profitability results. Additionally, the period of the study (2015-2023) may coincide with extraordinary events (e.g., volatility of inflation), which may lead to structural breaks despite good estimators.

ANALYSES AND INTERPRETATIONS

Table 1: Descriptive Statistics of Study Variables

Variable	Mean	Std. Dev.	Min	Max
Return on Assets (ROA)	0.072	0.041	-0.05	0.18
Liquidity Risk (LR)	1.46	0.62	0.55	3.10
Credit Risk (CR)	0.38	0.21	0.05	0.82
Operational Risk (OR)	0.27	0.14	0.04	0.61
Inflationary Risk (IR)	0.061	0.018	0.032	0.091
Interest Rate Risk (INT)	0.083	0.026	0.041	0.131
Firm Growth (GROW)	0.119	0.084	-0.12	0.36

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Firm Size (SIZE)	14.92	1.27	12.41	17.68
Firm Age (AGE)	24.3	9.6	6	48

The descriptive statistics of all the study variables are given in Table 1. Mean value of Return on Assets (ROA) 0.072 Standard Deviation 0.041 Moderate variation in profitability across firms. Liquidity Risk (LR) has a mean of 1.46 and a standard deviation of 0.62, indicating that firms are not much different in their ability to meet short-term obligations. Credit Risk (CR) has a mean of 0.38, which implies that it has moderate exposure to receivables and default risks. Operational Risk (OR) has a mean of 0.27 due to the differences in internal processes and operational risks across the firms. Inflationary Risk (IR) and Interest Rate Risk (INT) have the lowest average values of 0.061 and 0.083, respectively, and are consistent with stable macroeconomic conditions over the period of the study. Firm-specific characteristics show the mean growth (GROW) is 0.119, size (SIZE) is 14.92 and age (AGE) is 24.3 years, which indicates that the sample comprises moderately large and mature textile firms with different patterns of growth. These descriptive results give a preliminary sense of the distribution and variation of financial risk parameters and performance indicators.

Table 2: Correlation Matrix

Variable	ROA	LR	CR	OR	IR	INT	GROW	SIZE	AGE
ROA	1.00								
LR	-0.09	1.00							
CR	-0.42	0.31	1.00						
OR	0.37	-0.12	-0.19	1.00					
IR	0.29	-0.08	-0.14	0.22	1.00				
INT	-0.15	0.21	0.26	-0.11	0.18	1.00			
GROW	0.41	-0.16	-0.23	0.28	0.17	-0.12	1.00		
SIZE	0.06	0.33	0.19	-0.04	-0.02	0.21	0.07	1.00	
AGE	-0.31	0.18	0.25	-0.17	-0.09	0.14	-0.29	0.38	1.00

A correlation matrix of the variables is reported in Table 2. ROA has a negative correlation with Credit Risk (-0.42), Firm Age (-0.31) and a positive correlation with Operational Risk (0.37), Inflationary Risk (0.29) and Firm Growth (0.41). This indicates that operational efficiency, growth, and adaptive strategies under inflation increase profitability, while credit exposure and the older firm theory may depreciate the ROA. Liquidity Risk exhibits a weak negative correlation with ROA (- 0.09), which shows very limited influence. Correlations between independent variables are below 0.5, which indicates the absence of serious issues with multicollinearity at the preliminary level.

Table 3: Random Effects Panel Regression Results

Variables	Coefficient	Std. Error	z-stat	p-value
Liquidity Risk	-0.013	0.011	-1.18	0.239
Credit Risk	-0.086	0.027	-3.19	0.001
Operational Risk	0.114	0.036	3.17	0.002

Inflationary Risk	0.529	0.194	2.73	0.006
Interest Rate Risk	-0.041	0.052	-0.79	0.431
Firm Growth	0.097	0.029	3.34	0.001
Firm Size	0.004	0.003	1.26	0.207
Firm Age	-0.002	0.001	-2.41	0.016
Constant	-0.031	0.047	-0.66	0.507

The random-effects panel regression results indicate that Credit Risk significantly reduces ROA ($\beta = –0.086$, $p < 0.01$), whereas Operational Risk ($\beta = 0.114$, $p < 0.01$) and Inflationary Risk ($\beta = 0.529$, $p < 0.01$) positively influence profitability. Liquidity Risk ($\beta = –0.013$, $p = 0.239$) and Interest Rate Risk ($\beta = –0.041$, $p = 0.431$) are statistically insignificant, suggesting these risks do not meaningfully affect firm performance in this context. Among control variables, Firm Growth has a positive effect ($\beta = 0.097$, $p < 0.01$), while Firm Age shows a negative impact ($\beta = –0.002$, $p = 0.016$), indicating that expanding firms perform better, whereas older firms face structural inefficiencies. Firm Size is not statistically significant. The overall model explains 42% of the variance in ROA, with a Wald χ^2 of 47.82 ($p < 0.001$), confirming the model's robustness.

Table 4: Model Statistics

Statistic	Value
Number of Firms	10
Observations	90
Wald χ^2	47.82
Prob > χ^2	0.000
R^2 (overall)	0.42
Hausman Test	Random Effects preferred

Table 4 shows the overall statistics of the random effects panel regression model. The analysis is based upon 10 firms that have a total of 90 observations, which provides sufficient variation among firms and time. The Wald chi-square statistic is 47.82 with a p-value of 0.000, which means a statistically significant model and that the independent variables combined can explain the variation in corporate performance (ROA). The overall R2 of 0.42 indicates that 42% of the variance in rev ROA is explained by the financial risk factors and control variables in the model. The results of the Hausman test suggest the appropriate choice of the random effect model and thus support the assumption that individual effects are uncorrelated with explanatory variables. These results confirm the robustness and suitability of the appropriate model used in the analysis of the effect of financial risk determinants on the profitability of firms.

Table 5: Panel Unit Root Test Results (Stationarity Test)

Variable	Levin–Lin–Chu (LLC)	p-value	Im–Pesaran–Shin (IPS)	p-value	Decision
ROA	-3.27	0.001	-2.94	0.002	Stationary
Liquidity Risk	-2.61	0.004	-2.48	0.007	Stationary

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Credit Risk	-3.02	0.001	-2.71	0.003	Stationary
Operational Risk	-2.44	0.008	-2.29	0.011	Stationary
Inflationary Risk	-3.18	0.001	-2.86	0.002	Stationary
Interest Rate Risk	-2.09	0.018	-2.01	0.022	Stationary
Firm Growth	-3.55	0.000	-3.17	0.001	Stationary
Firm Size	-4.21	0.000	-3.88	0.000	Stationary
Firm Age	-2.97	0.002	-2.63	0.004	Stationary

Table 5 presents the outcome of the panel unit root tests that are performed to verify the stationarity of the variables, as this is one of the key assumptions required for panel data regression. Both Levin-Lin-Chu (LLC) and Im Pesaran Shin (IPS) tests indicate that all the variables are stationary at the level. For instance, ROA has LLC = –3.27 (p = 0.001) and IPS = –2.94 (p = 0.002), confirming its stationarity. Similarly, financial risk variables, such as liquidity risk, credit risk, operational risk, inflationary risk, and interest rate risk, as well as firm-specific controls, such as growth, size and age, are all in the stationary state. This implies that the variables lack unit roots and ensures that the results of the regression are reliable and not spurious.

Table 6: Multicollinearity Diagnostics (Variance Inflation Factor – VIF)

Variable	VIF	Tolerance
Liquidity Risk	1.48	0.68
Credit Risk	1.76	0.57
Operational Risk	1.39	0.72
Inflationary Risk	1.22	0.82
Interest Rate Risk	1.61	0.62
Firm Growth	1.57	0.64
Firm Size	1.89	0.53
Firm Age	1.74	0.57
Mean VIF	1.58	—

The findings of Multicollinearity Diagnosis using Variance Inflation Factor (VIF) and Tolerance are shown in Table 6. The VIF for all the independent variables has values from 1.22 to 1.89, with a mean VIF value of 1.58, which is well less than the threshold value of 10 usually accepted. This is a good indication that you do not have a high level of multicollinearity between the explanatory variables. The corresponding Tolerance values show that they are sufficiently independent and range between 0.53 and 0.82. Results of this study have shown that regression coefficients do not have an inflated effect because of collinearity, thus assuring the stability and reliability of the estimated model.

DISCUSSION

The empirical findings of this study deliver in-depth thoughts regarding the relation between the main financial risk determinants and corporate performance in the Indian textile industry. Consistent with previous findings in other industries, credit risk was significantly negatively related to firm profitability (ROA), which shows that firms

with greater credit exposures or slower receivables realizations exhibit lower asset returns. This is consistent with evidence from risk research, which finds that credit risk and non-performing assets have negative effects on the performance of firms through the increased provisioning and higher financing costs (Rehman et al., 2023; plus generally in the banking sector literature on negative effects of credit risk on measures of performance).

Operational risk produced a positive effect on performance, indicating that advantageous firms can manage their internal processes and reduce shocks to operations. This result resonates with qualitative assessments of textile industry challenges where the actual notions of operational and strategic risk management are pointed out as central to maintaining competitiveness (Ansari et al., 2024). However, this progressively positive association may be in context-specific operational strengths of listed textile firms, which strategically convert operational investments into performance gains.

The study also showed that inflationary risk had a positive effect on ROA, an effect that might at first be counterintuitive. One theory that is plausible and supported by wider macroeconomic research is that firms in capital-intensive manufacturing sectors are able to at least partially pass through the cost increases to product prices during periods of inflation, preserving profit margins (2021-2023 inflation dynamics observed globally) and reducing the adverse impacts on measures of profitability. Within the textile context where input price volatility (e.g., cotton, energy) is a frequent feature, this result emphasises the adaptive pricing strategies that might help to protect profitability under conditions of inflationary stress.

Contrary to expectations, liquidity risk and interest rate risk were not significantly and statistically significant determinants of performance in the final model. While in the past liquidity has supported the ability of firms to meet short term obligations and hence helped in stabilizing the profitability, results of similar empirical studies in textile sectors find mixed evidence with some research reporting insignificant or context dependent effects of liquidity variables on performance outcomes (e.g., some working capital components were found to have varied or insignificant effects on profitability in emerging textile markets). The lack of apparent effect of interest rate risk may be indicative of a period of stable borrowing environments or a good financial hedging capacity of listed Indian textile firms, which requires further research into the pass-through of interest rate and debt structure nuances in the textile sector.

The significant positive effect of firm growth adds to the assertions that wider operations are associated with improved profitability, as wider operations are likely to engender economies of scale as well as favorable market positioning. Meanwhile, firm age had a negative influence on performance, interpretable within the context of organizational rigidity and baggage in terms of legacy cost structures that older firms occasionally incur, which has also been documented in the wider corporate performance literature.

The overall evidence from empirical studies suggests that the financial risk determinants do not have a uniform impact on corporate performance, and that the effect, both directionally and in magnitude, varies according to risk types. These

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differential impacts support the necessity for firm managers and policymakers to execute specific financial risk management practices as opposed to a one-size-fits-all approach. For instance, instead of liquidity enhancement alone, the priority areas of credit risk mitigation and operational efficiency may bring higher benefits to profitability in some of the textile sub-sectors.

Overall, this study is relevant to the increasing literature about the relationships between risk and performance in emerging markets by showing that non-traditional risk determinants (such as operational and inflationary risk) can be as important as conventional financial risks in shaping firm performance. By adding empirical knowledge to the Indian textile context, the results provide useful and actionable insights for risk management and strategic decision-making internally, as well as resource allocation based on the structural characteristics of the industry.

CONCLUSION

The empirical analysis of this study shows that the financial risk factors do not have a uniform impact on the performance of the companies of the Indian textile industry. Specifically, operational risk and inflationary pressures were found to have a statistically significant and positive relationship with firm profitability (ROA), suggesting that those firms that can manage their internal processes and adapt pricing strategies during such inflation periods may see performance benefits. On the other hand, credit risk had a statistically significant negative relationship with profitability, which demonstrated the harmful impact of high credit exposures on firm financial performance, a research result consistent with prior studies that reported a negative association between credit risk and financial and non-financial profitability, such as Haris et al. (2025). Liquidity risk and interest rate risk did not show any significant effects in the final spectrum, suggesting the possibility of sector-specific dynamics that dampen their effects. Additionally, firm growth positively affected profitability, while firm age was found to be associated with a negative effect on performance, i.e., organizational maturity may be fraught with structural inefficiencies that overcome the returns. Collectively, these findings speak to a complex risk-performance nexus in the Indian textile context and a selective significance of risk factors, in addition to the importance of a tailored risk management strategy.

RECOMMENDATIONS

Based on the results, this research presents some concrete suggestions for managers, investors, and decision makers in the textile sector. First, a firm's leaders ought to prioritize credit risk management practices, such as tighter credit control and better receivables monitoring, to reduce the negative impact of credit exposure on a firm's profitability, which is in line with the evidence of the negative impact of credit risk outcomes on financial returns (Haris et al., 2025). Second, textile companies need to make investments in operational risk mitigation systems (e.g., process automation, quality controls), which may lead to improved performance through improved capabilities (such as improved efficiency). Third, based on the positive role of inflationary risk in this regard, firms need to design adaptive pricing techniques and cost hedging mechanisms to maintain margins during periods of inflationary pressure, which has been suggested in overall macroeconomic performance research (Ibrahimov et al., 2025). Additionally, policymakers should promote industry competitiveness by

supporting access to stable financing and supporting macroeconomic environments that have predictable interest rate regimes to minimize uncertainty in planning for firms. Collectively, these recommendations tend to support a nuanced approach to financial risk management in line with firm-specific and macroeconomic realities.

SIGNIFIC/ANCE OF THE STUDY

This study has several important contributions to the literature and practice. Best Practices/ Bests in Finance First, by using a panel data approach over a nine-year period, the research has produced solid empirical evidence of the simultaneous effects of multiple financial risk factors on corporate performance in the Indian textile industry. While the research on firm performance and risk tends to focus on individual risk determinants or a particular sector (e.g., banking), this study is unique in integrating liquidity, credit, operational, inflationary, and interest rate risk into one analytical framework in order to fill one of the gaps in emerging markets research. Second, the results provide industry-specific insights that go beyond the broad manufacturing studies, which are of interest to textile manufacturers, managers and investors who operate in the volatile and competitive environments. Finally, the findings contribute to a better understanding of risk-performance relationships from the theoretical point of view by showing that not all financial risks are equally weighted when determining the outcome in terms of profitability and, hence, will aid the future research agenda in the understanding of financial risk management and evaluation of performance.

LIMITATIONS

Despite its contributions, there are several limitations of this study that should be noted. First, the focus on listed textile firms in India leaves generalizations open to the extent that unlisted firms or textile sectors in other economies with different financial/regulatory environments are not covered. Second, although the period in the panel (2015-2023) captures important variations in the economy, it may not fully capture longer-term structural changes, for example, caused by dynamics of global trade or technological disruptions. Third, the sampling procedure is then based on secondary and reported financial data, and these can be affected by reporting biases or differences in accounting processes among the firms. Some of these limitations could be surpassed by future research work by including larger samples such as small and medium enterprises (SMEs), conducting mixed methods research involving using primary data to gather managerial perceptions of risk with the addition of other aspects of macroeconomic models such as exchange rate volatility and global demand shocks which have been mentioned as influencing the performance of firms in related empirical research (Ibrahimov et al., 2025).

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