



FINANCIAL MECHANISMS FOR IMPROVING LIQUIDITY AND RISK MANAGEMENT IN COTTON GINNING ENTERPRISES: EVIDENCE FROM UZBEKISTAN

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Abstract

This study examines liquidity and financial risk management mechanisms in cotton ginning enterprises operating in Uzbekistan, based on official financial statements and field-based evidence. Using balance sheet data from two representative cotton ginning plants over the period 2021–2024, the research evaluates key liquidity indicators alongside capital structure dynamics.

The empirical results reveal that, despite temporary improvements in the current ratio in certain periods, quick and absolute liquidity ratios remain persistently low. This indicates limited real payment capacity and the presence of structural cash flow constraints within the enterprises. Furthermore, a strong reliance on debt financing combined with an insufficient equity base significantly increases financial risk and amplifies vulnerability to short-term liquidity shocks.

The findings demonstrate that liquidity problems in cotton ginning enterprises are not temporary or cyclical, but are rooted in the structural characteristics of production and financial operations. Based on empirical evidence, the paper substantiates the need to improve sector-specific financial mechanisms aimed at the integrated management of liquidity and financial risks, taking into account the unique operational features of cotton ginning enterprises.

Keywords: liquidity management; financial risk; cotton ginning enterprises; working capital; capital structure; Uzbekistan

Introduction

The cotton ginning industry represents a critical strategic link in the value chain of cotton production and deep processing. This sector ensures an essential connection between

agriculture and industry by transforming raw cotton into export-oriented products. The competitiveness of cotton fiber, yarn, and other semi-finished products largely depends on the financial stability, capital structure, and managerial efficiency of cotton ginning enterprises. Therefore, analyzing the financial condition of cotton ginning enterprises and developing mechanisms for its improvement has become an urgent scientific and practical issue [1,2].

In recent years, financial stability challenges have intensified in manufacturing enterprises, particularly in cotton ginning plants. Rising production costs, volatility in market conditions, high prices of credit resources, and shortages of working capital have placed substantial pressure on enterprise financial systems. Practical observations indicate that in some cotton ginning enterprises, even when production volumes are maintained or increased, profit indicators approach zero or financial results remain negative. This situation reflects a structural mismatch between profitability and liquidity. The weakening of financial stability adversely affects not only individual enterprises but also the overall efficiency of the sector.

Within this system of challenges, liquidity and financial risk issues occupy a central position. Liquidity reflects an enterprise’s ability to meet short-term obligations on time and serves as a key factor ensuring the continuity of production processes. In cotton ginning enterprises, liquidity levels are strongly dependent on bank loans, advance payments, and settlements with suppliers. A decline in liquidity leads to delays in wage payments, increased reliance on credit financing, and disruptions in operational activities. At the same time, the interconnection between financial risks—credit risk, liquidity risk, and operational risk—significantly weakens overall financial stability. For industrial enterprises operating in emerging economies, effective management of these risks is becoming increasingly important [3,4].

Although liquidity and risk management issues have been extensively studied in the literature, existing research primarily focuses on large industrial corporations or financial institutions. Empirical studies addressing sectors such as cotton ginning—characterized by seasonal production cycles, high capital intensity, and a large share of working capital—remain limited. In cotton ginning enterprises, seasonality, volatility in raw material prices, and the high share of energy and logistics costs restrict the application of standard financial management models. Consequently, this sector requires adapted financial mechanisms that jointly account for liquidity and risk management based on its specific operational characteristics [5].

The main objective of this paper is to identify the key factors influencing liquidity and financial risk management in cotton ginning enterprises and to substantiate financial mechanisms aimed at their improvement. The study is conducted using the example of cotton ginning enterprises operating under conditions of a developing economy and relies on official financial statements, balance sheet data, and field-based observations. Financial reports of two operating cotton ginning enterprises over the period 2021–2024 are analyzed to assess liquidity indicators, debt burden, and capital structure dynamics. The selection of this period is not accidental, as a significant number of cotton ginning enterprises were incorporated into the cluster system starting from 2021, leading to the formation of financial relations under new institutional conditions. The full closure of balance sheets up to 2024 ensures the reliability of the results, while financial statements for 2025 are excluded due to their incomplete status.

The scientific novelty of this study lies in proposing an integrated approach to liquidity and risk management that accounts for the real financial characteristics of cotton ginning enterprises. Unlike generalized financial models, the proposed approach is adapted to sector-specific needs and grounded in empirical evidence, contributing to the development of practical and context-sensitive financial mechanisms.

Literature Review

Issues related to financial stability, liquidity, and financial risk management constitute one of the core directions of corporate finance theory. In the academic literature, liquidity is commonly defined as an enterprise's ability to meet its short-term obligations in a timely manner and is regarded as a key financial indicator ensuring the continuity of operational activities. Financial stability, in turn, is assessed through the balance between assets, liabilities, and equity, reflecting an enterprise's long-term development capacity [1].

A substantial body of research emphasizes the close relationship between working capital management, liquidity, and profitability. In particular, efficient working capital management contributes to the strengthening of short-term liquidity and the reduction of financial risks [6]. However, excessively conservative liquidity policies may result in inefficient capital allocation, leading to a decline in profitability [7]. This trade-off highlights the necessity of developing balanced financial mechanisms that simultaneously support liquidity and profitability at the enterprise level.

Studies on financial risk management primarily focus on the impact of credit risk, liquidity risk, and operational risk on corporate financial performance. Researchers consistently indicate that a high share of short-term liabilities and excessive dependence on borrowed funds significantly weaken financial stability [8]. This issue is especially critical for industrial enterprises operating in emerging economies, where the interdependence of various financial risks requires an integrated management approach rather than isolated risk control measures.

Despite the extensive literature on liquidity and risk management, existing studies predominantly examine large industrial corporations or financial institutions. In contrast, the financial characteristics of cotton ginning enterprises, which process agricultural raw materials, remain insufficiently explored. This sector is characterized by pronounced seasonality, volatility in raw material prices, a high share of working capital, and irregular production cycles, all of which necessitate adapted financial management approaches. General financial models often fail to adequately capture these sector-specific conditions [9].

From this perspective, an empirical investigation of liquidity and financial risk management mechanisms in cotton ginning enterprises contributes to addressing an important gap in the existing literature. While preserving the core theoretical foundations of corporate finance, the present study focuses on the specific financial features of the cotton ginning industry and emphasizes the use of real financial statements to develop practical and flexible management mechanisms.

Nevertheless, despite the growing volume of research on liquidity and financial risk management, empirical evidence based on real financial data from cotton ginning enterprises operating in developing economies remains limited. This study is designed to fill this gap by

providing an empirically grounded analysis that also serves as a methodological foundation for subsequent quantitative investigations.

Methodology and Data

This study aims to empirically analyze liquidity and financial risk management mechanisms in cotton ginning enterprises. The research methodology is based on official financial statements of real manufacturing firms and on-site field observations. Rather than constructing a theoretical model, the study focuses on analyzing the actual financial condition of enterprises and identifying practical financial problems.

Research objects and data sources

The research sample consists of two cotton ginning enterprises operating in Uzbekistan. These enterprises were selected due to their active production operations, availability of complete financial statements, and the possibility of conducting direct field observations. The study covers the period from 2021 to 2024, which allows for an analysis of the dynamics of key financial indicators over time.

The data set was constructed using the following primary sources:

- accounting balance sheets (Form F-1);
- financial performance statements (Form F-2);
- internally developed enterprise-level checklists;
- on-site observations and interviews conducted at the enterprises.

This approach minimizes subjective assessments and relies exclusively on official, verifiable, and reproducible financial information.

Research methods

The study employs conventional financial analysis methods widely used for industrial enterprises [10]. In particular, the assessment of short-term solvency is based on the calculation of key liquidity indicators derived from balance sheet data, including:

- the current ratio;
- the quick ratio;
- the absolute liquidity ratio.

These indicators are used to evaluate the enterprise's capacity to meet short-term obligations and serve as practical measures for assessing financial risk exposure. In addition, the structure of liabilities, the share of borrowed funds, and the dynamics of equity capital are analyzed to assess their impact on overall financial stability.

Research approach

A case study approach is applied, with each cotton ginning enterprise examined as an independent financial system [11]. This approach makes it possible to capture sector-specific characteristics such as seasonality, a high share of working capital, and strong dependence on credit resources. Liquidity and financial risk indicators are therefore evaluated not against generic industry benchmarks, but in relation to the enterprises' actual financial conditions and production environments.

The analytical results are interpreted not only to document existing financial problems, but also to justify the need for improving financial management mechanisms. The primary focus

of the study is on identifying practical financial approaches aimed at strengthening financial stability and reducing risk exposure in cotton ginning enterprises.

The selected indicators are widely applied in the financial analysis of industrial enterprises, are transparent in their calculation, and possess high practical relevance under real production conditions, which justifies their inclusion in the scope of this research.

Results

This section evaluates the financial condition of cotton ginning enterprises based on actual balance sheet data and analyzes the empirical results of liquidity and financial risk indicators. The analysis focuses on the enterprises' ability to cover short-term liabilities, the structure of current assets, and the impact of capital structure on financial stability.

1. Empirical analysis of liquidity indicators

The calculated current, quick, and absolute liquidity ratios based on balance sheet data indicate that liquidity problems in cotton ginning enterprises are systemic in nature. Despite relatively high volumes of current assets in both enterprises, the extremely low share of cash holdings significantly limits their ability to immediately meet short-term obligations.

The structure of current assets is dominated by inventories and accounts receivable. While this composition allows the current ratio to remain at a seemingly acceptable level, the quick and absolute liquidity ratios remain consistently low. This imbalance reflects structural weaknesses in real cash flows rather than temporary accounting effects.

In the Mirzacho'l cotton ginning enterprise, a sharp increase in short-term bank loans combined with insufficient cash balances indicates elevated liquidity risk. A substantial portion of current liabilities is formed by bank loans and payables to suppliers, highlighting a strong dependence of operational activities on external financing.

In contrast, the cotton ginning enterprise located in Baxt town exhibits relatively more stable levels of current assets; however, its absolute liquidity ratio remains critically low. This suggests that a significant share of working capital is effectively “locked” in inventories and receivables, resulting in extremely weak immediate payment capacity.

It should be emphasized that production seasonality further intensifies liquidity pressures in cotton ginning enterprises. During off-season periods, sharp declines in revenue generation create additional financial stress in meeting short-term obligations. Consequently, deteriorating liquidity indicators contribute to an increase in financial risks, particularly credit and operational risks.

The empirical results demonstrate that liquidity problems in cotton ginning enterprises are not episodic or cyclical, but rather reflect systemic deficiencies in existing financial mechanisms. Strengthening liquidity therefore requires not only increasing the volume of current assets, but also optimizing their structure and improving cash flow management practices.

Table 1

Dynamics of liquidity indicators of WHITE-GOLD-KLASTER (2021–2024)

Indicator	2021	2022 (Q4)	2023 (Annual)	2024 (Q4)
Current ratio = CA / CL	1.211	0.934	0.556	2.292
Quick ratio = (CA-Inv) / CL	0.369	0.659	0.278	1.254

Absolute liquidity = Cash / CL	0.00303	0.000000013	0.0000429	0.000153
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Table 1 presents the dynamics of the main liquidity indicators of the WHITE-GOLD-KLASTER enterprise over the period 2021–2024. The results demonstrate that absolute liquidity remained persistently low throughout the entire observation period, indicating a severe shortage of immediately available cash resources within the enterprise. Despite the improvement in current and quick liquidity ratios observed in 2024, the absolute liquidity ratio stayed at a critically low level, suggesting that liquidity problems are not temporary but rather structural in nature. This situation is primarily explained by the growth of current assets driven mainly by inventories and accounts receivable, which are not sufficiently effective in ensuring short-term solvency. As a result, the enterprise faces elevated liquidity and credit risks, particularly under conditions of seasonal revenue fluctuations.

2. Capital Structure and Financial Risk Results

The level of financial risk was assessed based on the relationship between the enterprise’s liabilities and equity. This approach makes it possible to identify the impact of debt burden on financial stability and to reveal structural imbalances in the capital structure. Table 2 presents the capital structure indicators and financial risk measures of the WHITE-GOLD-KLASTER enterprise over the period 2021–2024.

Table 2

Capital structure and financial risk indicators of WHITE-GOLD-KLASTER, 2021–2024
(thousand UZS)

Indicator	2021	2022 (Q4)	2023 (Annual)	2024 (Q4)
Current assets (CA)	135,069,559	212,990,490	166,610,674	201,116,968
Inventories (Inv)	93,917,658	62,779,895	83,215,951	91,060,385
Cash	337,694	3	12,847	13,433
Current liabilities (CL)	111,517,683	227,963,395	299,773,415	87,740,953
Equity	6,477,870	7,748,271	-1,969,376	-3,564,655
Total liabilities	129,899,778	258,127,680	628,512,885	633,695,889
Debt-to-equity = TL / Equity	20.053	33.314	-319.143*	-177.772*

The data presented in Table 2 indicate that debt financing played a dominant role in the enterprise’s operations throughout the analyzed period. In particular, during 2021 and 2022, the debt-to-equity ratio remained extremely high, reflecting a substantial level of financial risk. In 2023 and 2024, equity turned negative, which signals the erosion of the capital base as a result of accumulated losses.

Negative equity implies the absence of an effective financial safety cushion for the enterprise. Under such conditions, even minor short-term operational fluctuations may pose a serious threat to solvency. The transition of the debt-to-equity ratio to negative values indicates a sharp increase in financial risk and highlights the enterprise’s excessive dependence on external sources of financing.

At the same time, the continuous growth in total liabilities, particularly the high share of both long-term and short-term bank loans, has intensified interest expense pressures, thereby

constraining profitability. This situation, combined with persistent liquidity problems, creates a mutually reinforcing effect of financial risks.

Overall, the existing capital structure of the WHITE-GOLD-KLASTER enterprise demonstrates weakened financial stability, a heavy debt burden, and a clear need for financial mechanisms aimed at the systematic reduction of financial risk. These findings provide a solid empirical basis for substantiating the necessity of improving financial design and financing mechanisms in the subsequent section.

3. Dynamics of Liquidity Indicators

The dynamic analysis of liquidity indicators over time demonstrates that liquidity pressure in cotton ginning enterprises is not driven by temporary fluctuations, but rather by structural and persistent financial imbalances. Although improvements in the current liquidity ratio were observed in certain years during the analyzed period, these changes were mainly driven by an increase in the volume of current assets and were not accompanied by a strengthening of real cash flows.

The consistently low levels of quick and absolute liquidity ratios confirm the limited capacity of enterprises to promptly meet their short-term obligations. This situation is primarily explained by the insufficient share of liquid assets within working capital and the prolonged immobilization of cash resources within production and financing cycles. As a result, even in cases where the current liquidity ratio appears relatively acceptable, the actual payment capacity of enterprises remains weak.

Furthermore, the dynamics of liquidity indicators exhibit a strong dependence on the seasonal nature inherent to cotton ginning enterprises. During off-season periods, a sharp decline in revenues combined with the persistence of fixed financial obligations significantly intensifies liquidity pressure. Under such conditions, maintaining short-term liquidity through external financing becomes a common practice, which in turn amplifies financial risks, particularly credit and liquidity risks.

Overall, these dynamic trends indicate that liquidity problems in cotton ginning enterprises are not episodic or period-specific, but represent a systemic issue rooted in internal inconsistencies of the existing financial mechanism. This pattern is clearly illustrated by the dynamics of liquidity indicators presented in Figure 1.

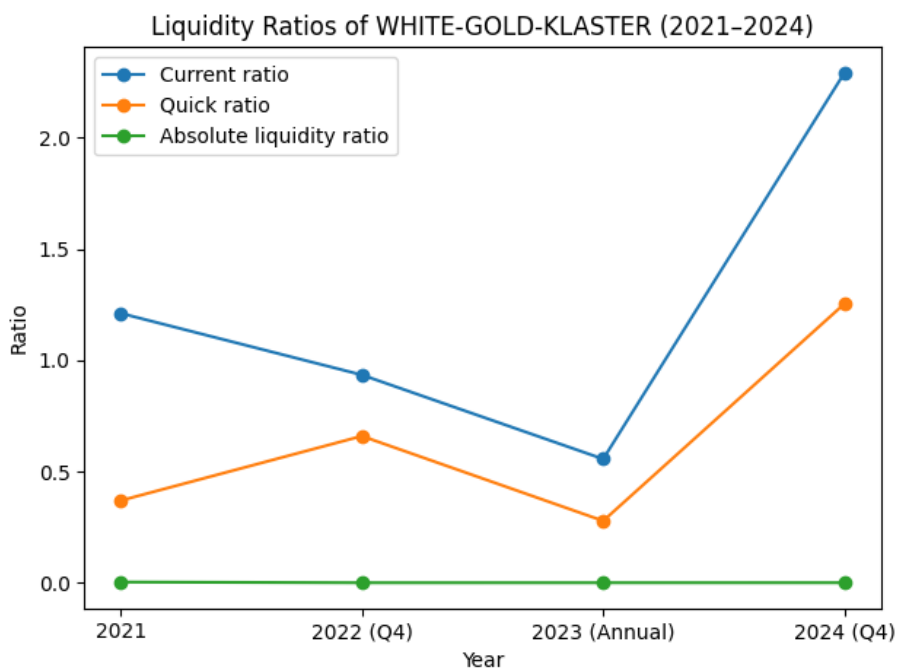


Figure 1. Dynamics of key liquidity indicators in cotton ginning enterprises (2021–2024)

As shown in Figure 1, there is a pronounced gap between the current liquidity ratio and liquidity based on real cash holdings. The growth of current assets is largely driven by inventories and accounts receivable, which do not provide sufficient short-term payment capacity. As a result, the consistently critical level of the absolute liquidity ratio across all observed years confirms that the liquidity problem is not caused by temporary fluctuations, but rather by internal structural inconsistencies in the financial mechanism.

This situation highlights the necessity of improving cash flow management, optimizing the composition of working capital, and revising the structure of short-term liabilities. Otherwise, even a relative improvement in the current liquidity ratio will not be sufficient to strengthen real solvency, and financial risks will continue to persist [12].

Discussion

The empirical findings indicate that liquidity and financial risk problems in cotton ginning enterprises are not random or cyclical phenomena, but rather the result of structurally interconnected financial imbalances. Low liquidity levels are determined not only by the volume of current assets, but also by their composition and turnover speed. A high share of inventories and accounts receivable slows cash flows, creating persistent difficulties in meeting short-term obligations in a timely manner.

The analysis of capital structure reveals that a strong reliance on debt financing significantly increases financial risk and makes enterprises highly vulnerable to external financial shocks. In particular, the transition of equity into negative values in certain years eliminates the economic relevance of the debt–equity ratio and severely constrains the ability to ensure financial stability. This situation contributes to the persistent nature of liquidity problems.

The dynamic analysis of liquidity indicators further suggests that short-term improvements observed in some years do not imply the existence of a systemic solution. On the contrary, such improvements—driven by temporary reductions in liabilities or inflows of external financing—deepen the gap between “accounting liquidity” and “real solvency” (Figure 2).

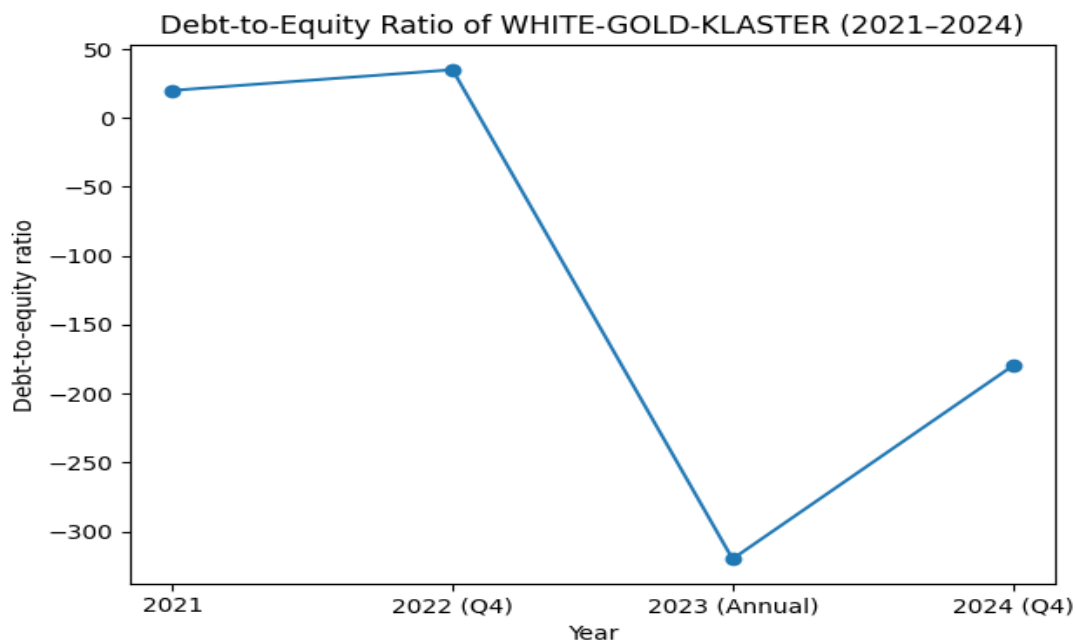


Figure 2. Capital Structure and Financial Risk Pressure

As illustrated in Figure 2, the imbalance between debt and equity intensifies financial risk and weakens the financial stability of enterprises. This situation indicates the necessity of revisiting financial mechanisms in cotton ginning enterprises. In particular, liquidity management should not be limited to balance-sheet indicators alone, but should incorporate approaches focused on operational cash flow management, accelerating working capital turnover, and strengthening the capital base with real economic substance.

Consequently, ensuring financial stability in cotton ginning enterprises should not be confined to improving individual financial ratios, but rather achieved through integrated financial mechanisms aimed at the joint management of liquidity and financial risk.

Conclusion and Policy Implications

This study was devoted to an empirical analysis of liquidity and financial risk management issues in cotton ginning enterprises based on real financial statements and field research. The results indicate that the financial problems of cotton ginning enterprises are mainly associated with a high share of short-term liabilities, low liquidity of the working capital structure, and insufficient formation of equity capital.

According to the findings, the relatively satisfactory appearance of current liquidity indicators in certain periods does not fully reflect the enterprises' actual payment capacity. Persistently low levels of quick and absolute liquidity confirm the presence of systemic cash flow-related problems. This evidence suggests that liquidity problems are not temporary in nature, but rather stem from internal inconsistencies within existing financial mechanisms.

Furthermore, the analysis of capital structure reveals that heavy reliance on debt financing significantly increases financial risk. In some periods, the transition of equity into negative values has weakened financial stability and intensified dependence on external financing sources. As a result, liquidity and financial risk issues emerge as mutually reinforcing factors.

Overall, the findings scientifically substantiate the necessity of managing liquidity and financial risk in cotton ginning enterprises not as isolated elements, but within a unified and integrated financial management framework.

Integrated liquidity and risk management mechanism for cotton ginning enterprises

The empirical results obtained in this study demonstrate that liquidity and financial risk problems in cotton ginning enterprises are not accidental, but are instead associated with internal inconsistencies within existing financial mechanisms. Therefore, this study proposes an integrated financial management mechanism aimed at managing liquidity and financial risk not separately, but within a unified system.

The proposed model is developed by explicitly taking into account the seasonal production cycle of cotton ginning enterprises, the structure of working capital, and their high dependence on debt financing. In this regard, it does not replicate conventional industrial financial models, but rather reflects the specific financial characteristics of the cotton ginning sector.

General concept of the model

The proposed Integrated Liquidity–Risk Management Framework for Cotton Ginning Enterprises (ILRMF-CG) consists of three interrelated functional layers (Figure 3):

Liquidity and cash flow monitoring layer

Financial risk identification and early warning layer

Decision-making and financial adjustment layer

These layers operate not in a linear sequence, but as a continuous and cyclical management process.

I. Liquidity and cash flow monitoring layer

This layer is designed to assess the enterprise’s short-term payment capacity in real time. The monitoring process is based on the following key indicators:

current ratio;

quick ratio;

absolute liquidity ratio (cash / current liabilities);

net cash flow and cash gaps.

The monitoring results indicate that a relatively satisfactory level of current liquidity in cotton ginning enterprises does not fully reflect their actual payment capacity. For this reason, absolute liquidity and cash flow indicators are defined in the model as the primary diagnostic metrics.

II. Financial risk identification and early warning layer

This layer aims to identify the likelihood of increasing financial risks based on the results of liquidity monitoring. Risk signaling is generated according to the following criteria:

a decline in absolute liquidity below a minimum threshold;

- a persistent downward trend in the quick ratio;
- faster growth of short-term liabilities compared to current assets;
- a transition of equity to negative values or a sustained downward trend.

When the indicators exceed predefined threshold values, the system generates an early warning signal. This signal indicates the intensification of financial risk and the necessity for immediate financial intervention.

III. Decision-Making and Financial Adaptation Layer

The third layer focuses on the development of specific managerial decisions based on financial risk signaling. Within this layer, the following practical mechanisms are proposed:

- reallocation of working capital structure and optimization of low-liquidity inventories;
- reduction of accounts receivable and implementation of mechanisms to accelerate cash flows;
- restructuring of short-term liabilities and balancing of the debt burden;
- formation of a financial safety buffer through the mandatory capitalization of a portion of profits.

It is proposed that these decisions be implemented through digital financial management tools (DGU-type software solutions). These tools enable real-time monitoring of liquidity indicators, automation of risk signaling, and rapid managerial decision-making.

Practical significance of the model

The proposed integrated model enables cotton ginning enterprises to transition from passive monitoring of liquidity and financial risks to an active management stage. The main advantage of the model lies in the fact that it does not merely identify financial problems, but also offers concrete mechanisms aimed at their mitigation.

This approach is developed by taking into account the specific characteristics of cotton ginning enterprises, including production seasonality, volatility of raw material prices, and high dependence on debt financing. Its practical implementation contributes to strengthening financial stability and reducing financial risks.

The empirical findings indicate that liquidity and financial risk problems in cotton ginning enterprises are not isolated phenomena, but rather interconnected systemic processes. Accordingly, based on the results of this study, an integrated financial management model aimed at the joint management of liquidity and financial risks has been developed (Figure 3).

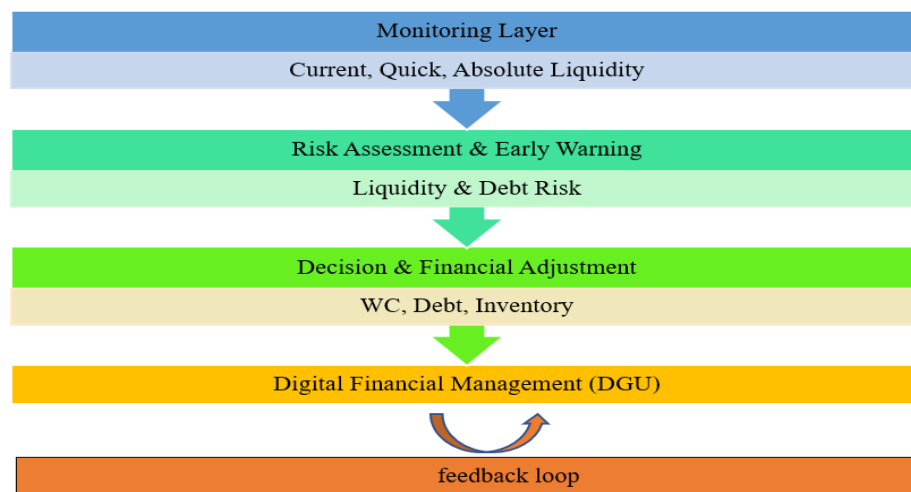


Figure 3. Integrated liquidity and financial risk management model for cotton ginning enterprises (ILRMF-CG)

As illustrated in Figure 3, the proposed model represents a continuous and closed-loop mechanism for managing liquidity and financial risks in cotton ginning enterprises. The model begins with a monitoring stage in which the enterprise’s short-term solvency is assessed using current, quick, and absolute liquidity indicators. Based on these indicators, liquidity and debt-related risks are identified, and early warning signals are generated.

When the level of risk increases, the financial adjustment stage is activated, leading to managerial decisions aimed at optimizing the structure of working capital, restructuring accounts receivable and payable, and regulating inventory levels. These processes are monitored in real time through a digital financial management platform (DGU-type solutions), which provides automated feedback and reconnects the system to the initial monitoring stage.

As a result, the model ensures a transition from passive observation of liquidity and financial risks to an active, adaptive, and integrated management approach.

Policy Implications

The empirical results obtained indicate the necessity of revising existing approaches to ensuring financial stability in cotton ginning enterprises. First, liquidity management should not be limited to measures aimed solely at improving balance sheet indicators. Instead, mechanisms focused on optimizing the structure of working capital, accelerating the turnover of accounts receivable, and implementing operational cash flow planning should be introduced.

From the perspective of the state and financial institutions, reliance exclusively on credit-based financing for cotton ginning enterprises has been found to intensify financial risks. Therefore, the development of long-term financing instruments—such as guaranteed loans, mechanisms for the gradual reduction of interest burdens, and special financial programs aimed at supporting working capital—is considered appropriate.

At the enterprise level, strengthening the capital structure emerges as a key strategic priority. Negative or insufficiently formed equity capital increases financial vulnerability and contributes to the persistence of liquidity problems. Accordingly, internal financial policies should be reinforced through profit reinvestment, gradual loss coverage, and diversification of financing sources.

In addition, the findings reveal the presence of a *financing–innovation gap* in the cotton ginning industry during the implementation of innovative projects. Despite the evident need for technological modernization, insufficiently adapted financial mechanisms are constraining innovation processes. Consequently, the introduction of institutional mechanisms based on risk-sharing among the state, banks, and private investors is of critical importance for financing innovation.

Overall, ensuring financial stability in cotton ginning enterprises requires not merely the improvement of individual financial indicators, but the implementation of a comprehensive financial policy oriented toward the integrated management of liquidity, capital structure, and financial risks. Such an approach supports the long-term sustainable development of industrial enterprises and contributes to strengthening financial security at the sectoral level.

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