

# **THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND PROFITABILITY OF PAKISTAN TEXTILE INDUSTRY**

**BY**

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A thesis presented to the Department of Management Sciences, Bahria University Karachi Campus, in partial fulfillment of the requirements of the MBA degree



**FALL, 2016**

**Bahria University Karachi Campus**

## Acknowledgement

I would like to thank my advisor, Sir Akbar Saeed for his continuing help in each step of the thesis, from title selection to writing the final report, my debts are numerous. Besides, his good advices, fascinating guide, constructive criticism, flexibility, support, diligent, are learnable. I am grateful to my teachers and coordinators too for their supporting role in order to guide me in this study.

I feel grateful to acknowledge here the overall help and support which I got from finance and other subject teachers whom in one way or another added to the successful completion of my study.

My thanks for the Bahria University, Karachi and Department of Management Sciences for making me familiarize what is required in the program.

Lastly my heartfelt thanks to my family without them, I wouldn't be the person what I am today.

## Abstract

**Purpose-** The main aim of this study was to investigate the relationship between working capital management and profitability of Pakistan Textile Composite Industry.

**Methodology/sample-** In this study, sample of 6 Textile composite firms are used which are listed in Pakistan Stock Exchange (PSX) formerly known as Karachi Stock Exchange (KSE) for the period of 2007 – 2016 (ten years). This study examines the effect of working capital management on the profitability of Textile composite firms in the Pakistan by using multiple regression analysis. The profitability is measured in terms of Return on Assets (ROA) (dependent variable). Whereas, the working capital is determined by the cash conversion cycle (days in accounts payables, days in accounts receivables, and inventory conversion period). Additionally, the traditional measures, financial debt ratio are used as solvency indicators, current ratio as liquidity indicators, firm's size is measured by logarithm of sales (independent variables)

**Findings-** Findings were tested at 0.05 level of significance. Results showed that the cash conversion cycle has no significant impact on profitability (ROA). But financial debt ratio has significant negative impact on profitability (ROA). Current ratio have a highly significant positive impact on profitability (ROA) and firm's size has no significant impact on profitability (ROA)

**Practical Implications-** Furthermore, managers can create profitability for the firms by handling correctly the current ratio and financial debt ratio and they must consider other strategies and tools to improve their firm's profitability included working capital.

**Keywords:** Profitability, Working Capital Management, Cash Conversion Cycle, Financial Debt Ratio, Firm's size, Current Ratio, Return on Assets.

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