

IMPACT OF WORKING CAPITAL ON THE PROFITABILITY A CASE STUDY OF TEXTILE INDUSTRY OF PAKISTAN

By

**WARSHA KUMARI LOHANO
31388**

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



FALL, 2015

Bahria University Karachi Campus

MBA Thesis

2nd Half-semester Progress Report & Thesis Approval Statement

Supervisor-Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	22-Nov-15	University	To Discuss about Methodology & data	Warsha
6	16-Dec-15	University	To Discuss about Data Analysis & Soft - ware used & How to analyze data	Warsha
7	2-Jan-2016	University	To Discuss about critical debate & conclusion	Warsha

APPROVAL FOR EXAMINATION

Candidate's Name: WARSHA KUMARI LOHANO Registration No. 31388
 Thesis Title: IMPACT OF WORKING CAPITAL ON THE PROFITABILITY
A CASE STUDY OF TEXTILE INDUSTRY OF PAKISTAN.

I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at 2% that is within the permissible limit set by the HEC for the MBA thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

Supervisor's Signature: _____ Date: 12-02-2016

Name: S. M. SIDDIQ WAZIM

Head of Department Signature _____ Date: 12-02-2016

ABSTRACT

Purpose

The aim of this study is to evaluate the impact of working capital and its components on the profitability of the textile companies listed in the Karachi stock exchange (KSE). This study provides an intense awareness of the working capital for the selected textile companies which has a significant influence on their profitability.

Methodology

This research study is explanatory, cause and effect and descriptive. This study involved use of secondary data and the data is collected from the annual reports and financial statements of the textile companies for the period of ten years 2006-2015. To analyze the data, Descriptive statistics, Regression, ANOVA and coefficient tested were applied by using SPSS software.

The independent variables working capital, number of days' inventory, number of days' account receivable, number of days' account payable and cash conversion cycle are tested in order to check their impact and relationship on the dependent variable profitability. Profitability is measured by Net income, Return on assets and Return on equity.

Findings

The comparative results and analysis of this research study clearly proposed that the profitability of textile companies is influenced by the changes made in the working capital. The result of the descriptive statics and regression analysis shows that the working capital has a significant impact on the profitability, while the other independent variables such as components have insignificant impact on the profitability of the textile companies.

Practical Implications

The outcomes of this research study might help to the managers and financial experts of the textile companies in order to efficiently manage the working capital which will directly affect the profitability of the company.

Keywords: Working capital, components, profitability, ROA, ROE.

TABLE OF CONTENTS

1. Title page.....	I
2. 2 nd Half semester report.....	II
3. Declaration of Authentication.....	III
4. List of Abbreviations.....	VI
5. Plagiarism.....	V
6. Acknowledgement.....	VI
7. Abstract.....	VII
8. Table of Contents.....	VIII
9. Chapter 1: Introduction	
1.1 Problem Background and Aim of the Study.....	9-10
1.2 Problem Statement.....	11
1.3 Research Question.....	11
1.4 Research objective.....	11
1.5 Information related Research Literature.....	11
1.6 Time Horizon.....	11
1.7 Limitations of the Study.....	12
1.8 Prospects of Future Research.....	12
1.9 Ethical Consideration.....	13
1.10 Organization of the Study.....	13
1.11 Introduction to the Sector.....	14-15
10. Chapter 2: Literature Review	
2.1 Theoretical Relationship between Working Capital and Profitability.....	16-18
2.2 Components of Working Capital.....	19
2.2.1 Cash Conversion Cycle.....	19
2.2.2 Number of Days' Account Receivable.....	19

2.2.3 Number of Days' Inventory.....	19-20
2.2.4 Number of Days Account Payable.....	19-21
8. Chapter 3: Research Methodology	
3.1 Nature of Research.....	22
3.2 Data Collection Method.....	22
3.3 Sampling Technique and Sample Size	22-23
3.4 Data Integration Method.....	23
3.5 Explanation of Variables.....	23
3.5.1 Independent Variables.....	23-24
3.5.2 Dependent Variables.....	25-26
3.6 Conceptual Framework.....	26
3.7 Research Hypothesis.....	27
3.9 Regression Model Specifications.....	28
9. Chapter 4: Data Integration and Analysis	
4.1 Descriptive Analysis.....	29-30
4.2 Regression Analysis.....	30
▪ Impact of Working Capital on Profitability (Net Income).....	30-32
▪ Impact of Working Capital on profitability (Return on Assets).....	33-34
▪ Impact of Working Capital on Profitability (Return on Equity).....	35-36
4.3 Hypothesis Assessment Summary.....	37
10. Chapter 5: Critical Debate.....	38-39
11. Chapter 6: Conclusion and Recommendations.....	40-41
12. References.....	42-43
13. Appendices.....	44-45