



The Effect of Working Capital Management on The Profitability of the Textile Industry: Evidence from Pakistan Textile Industry

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Abstract

The working capital management has significant importance in business investment because it impact on company's Profitability and efficiency. The current study has taken the textile sector of Pakistan comprising of three sectors , that is spinning weaving and composite comprising of 155 companies in total . The aim of the paper is to investigate the effect of working capital management on profitability of the textile firms. A sample of 20 businesses is randomly selected for a period of six years to carry out the current study. In the existing study ROA is taken as a measure of profitability of the firm. While the working capital is taken as the measure of the cash conversion cycle. Account receivable collection period, Account payable time period size of the firm sales growth and current ration. Regression analysis is done and to address the issue of multicollinearity VIF test is done. The study's conclusions demonstrate that working capital utilization matters to Pakistani textile enterprises and that effective working capital utilization affects profitability. Studies show that when a company's inventory turnover period increases, its profitability decreases. The prompt transformation of raw materials into final products has a significant impact on the profitability of the company. The analysis did not uncover any proof that profitability and the cash conversion cycle (CCC) were significantly correlated.

Keywords: cash conversion cycle, working capital management, profitability

1. Introduction

In organizations, managers have three responsibilities. (1) Long-term asset management; (2) long-term capital management; and (3) short-term resource and obligation management. Working capital management is the phrase used to describe the management of short-term assets and liabilities (Akram et al., 2022). In order to complete the organization's daily tasks and pay for all of the company's commitments, working capital management is also very important (Raman, 2011). The company's primary goal is to turn a profit (Ashrsf, 2012). Working capital management is a crucial component of corporate investments since it has a direct impact on the productivity and profitability of the business (Arshad and Gondal, 2013).

In a business, current assets and current liabilities coexist in the day-to-day operations. Within a company, current assets and current liabilities operate in a circle. In an organization, working capital creates and distributes funds, serving as the engine that drives it. When this generation and circulation ends, the company will either go out of business or die. It is referred to as circulating capital for this reason. The goal of working capital management is to maintain the best possible balance between all working capital factors (Filbeck & Kruenger, 2005). Having enough working capital guarantees a successful business operation, but too much working capital reduces profitability.

Working capital management's primary goals are to maximize investments in current assets; minimize current liabilities to increase return on capital utilized; and reduce capital committed to working capital. (Sandhar et al., 2013). The primary sources of the liquid cash, which is mostly represented as working capital, include share offerings, borrowing, and other business activities. These monies are utilized to pay creditors as well as to buy raw materials and fixed assets. Because it affects profitability, effective working capital management is very important for the expansion and sustainability of a business.

Inventory levels, accounts payable, accounts receivable, and the cash conversion cycle are the main elements of working capital management (Biger et al., 2010). A common indicator of working capital management is the cash conversion cycle, which shows the net amount of time that passes between a company's real cash outlays for the acquisition of resources and its eventual recovery of cash from sales of its products (Laughlin and Richards, 1980).

Making enough money to satisfy an organization's stakeholders—employers, workers, and employees, among otheris defined as profitability. An organization makes money when its revenue exceeds its expenses. According to Ameri and Lotfi (2013), profit is the firm's performance measured in absolute terms, whereas profitability is a comparative assessment of the same. Numerous studies on this topic have revealed that ineffective working capital management can lead to industrial illness in addition to decreasing a company's profitability. For this reason, businesses should maintain an ideal level of working capital in a variety of ways to optimize their value (Vallalnathan and Joriye, 2013).

Furthermore, the ability of the company to maintain a suitable liquidity position and meet its short-term obligations is a key component of effective working capital management (Eljelly, 2004). Maintaining an ideal equilibrium between liquidity and profitability is crucial for a company's day-to-day functioning. The company's working capital meets its short-term financial needs. The financial flow is critical to the ongoing operation of the company (Padachi, 2006).

2. Literature Review

According to research by Sandhar (2013), Ramzan et al. (2023) the main goals of working capital management are to minimize the amount of current obligations and maximize investments in current assets in order to increase the return on capital used and lower the amount of capital locked up in working capital. By managing a company's current assets so that their marginal return on investment does not fall short of the cost of the capital used to finance them, working capital management guarantees that a

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business can adequately support its current obligations with the resources at its disposal. Working capital management, according to Sandhar (2013), is a company's capacity to manage cash in the event that there is a discrepancy between the short-term assets and liabilities.

According to Eljelly (2004), working capital management entails two phases. The planning of resources comes first, followed by resource control. The company needs these resources to meet its short-term obligations and to prevent squandering resources by making unnecessary investments in current assets. The management of short-term assets and liabilities is known as working capital management, and it has a direct impact on the profitability and liquidity of the business (Eljelly, 2004). (Yusuf Aminu, Nasruddin Zainudin, 2012). The firm's return on total assets is significantly impacted negatively by its current assets and liabilities (Gill et al., 2010).

According to Falope and Ajilore's (2009) research, net operating profitability and average collection period, cash conversion cycle, and inventory turnover in days for a sample of fifty Nigerian Stock Exchange (NSE) companies are significantly correlated negatively. Furthermore, the research revealed noteworthy distinctions in the impacts of Working Capital Management between enterprises of varying sizes. For statistical purposes, Yusuf Aminu and Nasruddin Zainudin (2012) also examined the connection between WCM and Profitability, gathering information from 101 Tehran Stock Exchange-listed companies between 2004 and 2008. They employed multivariate regression analysis and the Pearson correlation to bolster their hypothesis. According to their findings, there is a negative correlation between profitability and the Cash Conversion Cycle, Account Receivable in days, and Account Payable in days. However, their research also found that there is no meaningful correlation or connection between profitability and the average length of stock preservation.

Mathuva (2009) examined the impact of working capital management on corporate profitability using a sample of thirty firms that were listed between 1993 and 2008 on the Nairobi Stock Exchange (NSE). To analyze the data, he employed fixed effects regression models, pool ordinary least squares (OLS), and Pearson and Spearman correlation. His study's primary findings were that: i) There is a highly significant negative relationship between profitability and the length of time it takes for businesses to collect money from clients (accounts collection period); ii) There is a highly significant positive relationship between profitability and the amount of time it takes to turn inventory into sales (inventory conversion period);

And iii) The average amount of time it takes the business to pay its creditors and profitability have an extremely substantial positive correlation.

According to Ashraf (2012), Shah and Sana (2006), the Working Capital Management variables inventory and accounts receivable less payable are used to calculate the Cash Conversion Cycle.

Padachi (2006) examined that the time between converting the inventory into finished form then selling the product and collection of receivables is Cash Conversion Cycle.

The amount of funds available will decrease if collections take longer. The longer Cash Conversion Cycle could mean that the company is making more money by increasing sales. Profitability is greatly affected by the Cash Conversion Cycle and its constituent parts (Mathur et al., 2010). Additionally, the Cash Conversion Cycle typically calculates the company's credit policy (Mathuva, 2009).

There may be less of a favorable correlation between the accounts receivable period and profitability since customers like to have longer time to assess the quality of the goods they buy from businesses. A related empirical finding is the inverse link between profitability and inventory period (DeLoof, 2003).

According to Ashraf's (2012) research, the magnitude of profitability, the current ratio, and the average collection period are all positively correlated. That is, larger businesses benefit more than smaller businesses because the current ratio and the size of the organization both increase the profitability of the business. However, there is a clear correlation between profitability and the average collection period, indicating that this was not the case in the first place.

3. Overview of Textile Industry in Pakistan

The foundation of the nation has been the textile industry, which generates both employment and export income. Pakistan's textile industry accounts for 57% of its exports. Pakistan's second-largest employment sector is the textile industry. Pakistan ranks eighth in Asia for its exports of textile goods, and the textile industry makes up 8.5% of the country's GDP. It is important to note that in 2017–18, textile product exports increased by 12.8% year over year to \$4.4 billion.

According to APTMA (2009-2012), Pakistan is the world's fourth-largest producer of textiles, accounting for 46% of total creation, 32% of labor force, 8.5 percent of GDP, 12.36 billion US dollars in total fares, 40% of the workforce, and 5% of business sector capitalization. It is also important to keep in mind that Pakistan's geological region is the most popular for international trade, contributing parts of its eastern border with India, its western border with Afghanistan and Iran, and its south-west border with the Middle East Ocean. There are currently 442 turning, 1,221 ginning, 124 large, and 425 small facilities that produce textile goods.

The textile industry has played a significant role in Pakistan's financial development for a considerable amount of time. A nation, a created nation, or a nation in the process of creating one should aim to expand the sector that contributes significantly to GDP and fare, as well as to creating jobs and incomes for the workforce (Sarwar, 2012).

This section's advancement has been halted for the past forty years following Pakistan's independence. There were just two textile production lines during Pakistan's independence: the Lyallpur Cotton Mills and the Okara Textile Mills, both located in Faisalabad and both of which were in progress (PACRA 2011). As time passed, this region began its gradual ascent, and eventually Pakistan emerged as the third-largest textile consumer and fourth-largest exporter.

Unluckily, Pakistan's textile industry has faced extremely serious challenges, such as energy crises, a lack of gas supplies, fluctuating yarn values and load shading for a considerable amount of time, the country's peace situation, the depreciation of the Pakistani rupee, a lack of modern equipment and machinery, a lack of establishments for research and development to improve the quality of raw materials, higher generation costs due to rising fuel prices, and so on. As a result of all these factors, Pakistani exporters are losing their competitive edge in global markets.

4. Working Capital Management (WCM)

The management of working capital is responsible for monitoring current assets and current liabilities. Since working capital management directly affects profitability and liquidity, effectively managing working capital generates value for shareholders (Bill, et al., 2010). The primary cause of the delayed progress is inadequate management. A company's profitability is lowered by subpar performance (Elijelly, 2004).

For all sizes of businesses, managing working capital is essential to assessing their financial health. The firm's short-term financial obligations are met by the management of working capital (Padachi, 2006). According to Arshad and Gondal (2013), the current asset less the current liability is the net working capital.

4.1. Cash Conversion Cycle (CCC)

For every firm, the Cash Conversion Cycle (CCC) is a crucial component. Working capital management is gauged by the cash conversion cycle, which displays the duration between purchasing items, converting them into a finished product, collecting cash from customers who owe you money, and paying suppliers (Padachi, 2006). Companies can increase the value they provide to their investors by shortening the Cash Conversion Cycle (Ashraf, 2012).

4.2. Account Receivable Turnovers in Days (RCP)

A crucial component of working capital management and the company's collection program is the account receivable turnover in days (Ashraf 2012). A company's profitability may be impacted by lowering its days of accounts receivable turnover. Account Receivable Turnover is a measure of how many days the company receives money from consumers. It is computed as $\text{Account Receivable} / [\text{sales}/365]$ (Rahman, 2011).

4.3. Inventory Turnovers in Days (ICP)

Maintaining the inventory serves a few purposes. The first is the transaction motive, which states that the company needs to have enough inventory on hand to satisfy the demands and requirements of its clients. The second is a preventive incentive, which is to sustain supply, lower the chance of stock outs, and therefore meet the supply and demand component. The third speculative aim demonstrates that having a sufficient amount of inventory can be advantageous in the event of a raw material scarcity and market price fluctuations (Rehman and Anjum, 2013).

The day that inventory is transformed into finished goods and all of the product is sold out is known as the inventory turnover day. Long inventory periods imply that the Cash Conversion Cycle will take longer to complete, whereas short inventory periods demonstrate effective management by the manager and help the company achieve profitability (Vallalnathan and Joriya, 2012).

4.4. Account Payable Turnovers in Days (PDP)

Days of account payable turnover show that a company will fulfill its obligation to pay its debts on schedule when it purchases goods or raw materials (Ameri and Lotfi, 2013). $\text{Account payable} / [\text{purchases}/365]$ is the formula used to get the account payable turnover in days (Gill et al., 2010).

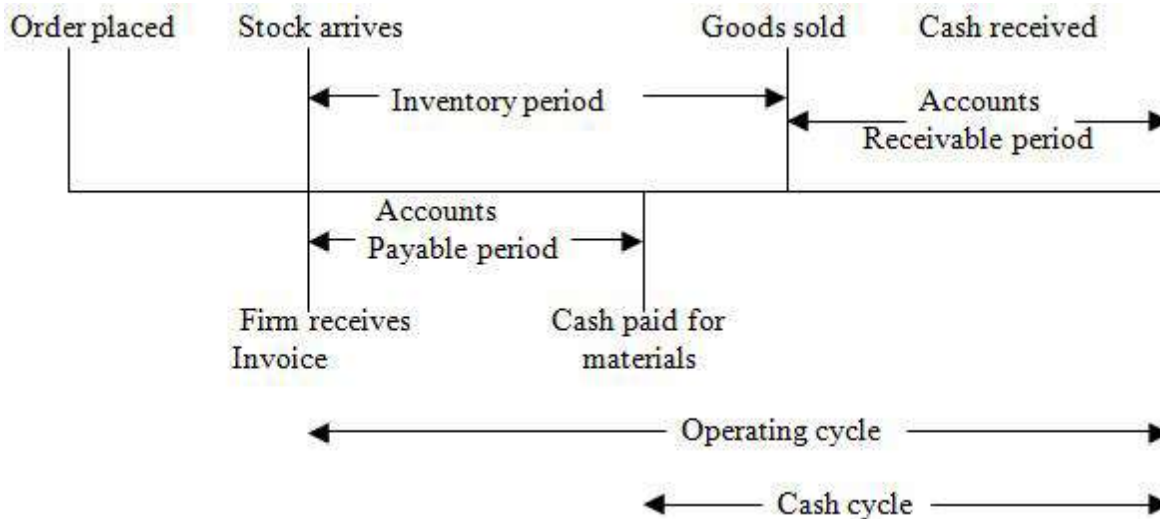


Figure 1: Working Capital cycle (Bose, 2013)

4.5. Working Capital Management (WCM) Policy

Working Capital Financing Policy (WCFP) and Working Capital Investment Policy (WCIP) comprise the Working Capital Management (WCM) policy. A business can chose an aggressive WCFP policy that aims to maintain a greater ratio of Total

Current Liabilities to Total Assets, or an aggressive WCIP policy that adopts a lower ratio of Total Current Assets to Total Liabilities (Afza and Nazir, 2007). Conversely, a low level of current assets results in a less liquid position and the risk of insufficient stock, which makes it difficult to maintain the smooth operation of the business (Van Horne, 2004). A surplus of current assets, on the other hand, has an inverse relationship with profitability.

There has been much discussion around the compromise between various working capital strategies (Elijelly, 2004). In contrast to conservative working capital approaches, which emphasize performance and risk minimization, aggressive working capital is associated with higher yield and risk (Padachi 2006). According to research, profitability worsened the more current asset investments were made (Afza and Nazir, 2007).

According to the study's findings, aggressive working capital and conservative politics can coexist in harmony. Therefore, it is essential that this study be seen as helpful in analyzing how working capital management practices affect profitability (Arshad and Gondal, 2013).

4.6. Profitability

Working capital management and profitability are typically seen as mutually exclusive. Current management skill may be threatened by low production, and profitability may be jeopardized by ineffective management in the opposite situation. Controlling a company's current budgetary assets in a way that creates parity between productivity and firm profitability in relation to risk is the primary objective of managing working capital (Arshad and Gondal, 2013). Most often, profitability is used as a gauge for financial execution. There are two senses in which productivity can be used: private or corporate profitability and public profitability.

The primary indicators of profitability are Return on Total Assets (ROA), Gross Profit Margins (GPM), Net Operating Margin (NOM), Return on Investment (ROI), and Return on Equity (ROE). As a result, profitability is a relative indicator of an organization's operational efficiency while profit is an absolute indicator. (Rukh et.al, 2023)

Revenue to fewer expenses determines the profit. Profit is determined in two methods: (1) Profit in Accounting; (2) Profit in Economics. Accounting profit is employed in this study (Arshad and Gondal, 2013; Padachi, 2006; Rahman, 2011) to deduct all costs from the product price.

4.7. Return on Total Assets (ROA)

Return on investment ratio calculates the company's profitability. This ratio displays the company's profit based on its assets, or earnings before interest and taxes, or EBIT. If a corporation uses all of its assets effectively, it can make more money; if not, it could see a decrease in return on investment. (Alavinasab and Davoudi, 2013., Rahman, 2011., Arshad and gondal, 2013; Rukh et al., 2023).

4.8. Problem Statement

The management of working capital is a crucial issue. The profitability of a business can be significantly impacted by the efficacy of working capital management. Lack of funds to purchase materials for manufacturing goods will prevent the company from offering clients the goods and services they need if it does not have enough working capital. This may jeopardize the profitability of the company.

Maximizing profits while preserving the company's cash balance is one of the fundamental goals of businesses. The Pakistani textile industry's profitability is significantly impacted by working capital management. This study aims to draw attention to the shortcomings in working capital management and how they affect profitability in Pakistan's textile industry.

5. Research Question

How does the profitability of Pakistan's textile industry relate to working capital management?

6. Objectives of the Study

- a) To determine the connection between profitability (ROA) and working capital management (WCM), which includes the inventory conversion period (ICP), accounts receivable collection period (RCP), and accounts payable deferral period (PDP).
- b) To determine how the Cash Conversion Cycle (CCC) affects the Return on Total Assets (ROA) of particular Pakistani textile enterprises.

7. Significance of the Research

The significance of this research study lies in the fact that the textile industry has to understand working capital management in order to operate efficiently. The impact of working capital management on the profitability of Pakistan's textile industry will be examined in this study. Additionally, this study will demonstrate the relationship between profitability and working capital management and offer guidance to the textile industry on working capital component management. This study is also significant because it provides information on how working capital management affects a company's profitability and can be used by academics, practitioners, policymakers, and business managers. It does this by enabling the company to maximize shareholder wealth through additional planning and financing cost maximization signals.

8. Scope of the Study

Working capital is how businesses meet their immediate financial needs, but it's also critical for them to lower risk, boost productivity, and increase value. Increased inventories lead to higher sales, lower stock out risks, and higher sales through

customer credit selling. The textile industry places great importance on working capital management. According to Ashraf (2012), current assets and current liabilities are included in working capital.

9. Dependent Variables

9.1. Return on Total Assets (ROA)

Return on investment ratio calculates the company's profitability. Using Earnings before Interest and Taxes (EBIT) as the asset, this ratio displays the company's profit. The dependent variable is the return on assets.

ROI is equal to $\text{Net Sales} / \text{Total Assets}$. (Aldwy 2014, Rukh et al., 2023; Deloof, 2008)

10. Independent Variables

The variables below are used to assess working capital management (WCM):

10.1. Cycle of Cash Conversion (CCC)

The Cash Conversion Cycle, which measures working capital management, displays the interval between purchases of products.

The independent variable is the Cash Conversion Cycle.

$\text{Account Receivable} - \text{Account Payable Period} + \text{Inventory Conversion Period}$ equals the Cash Conversion Cycle. (Ahmad Rizal Mazlan and Fairuz Sofia Kaharuddin, 2018).

$\text{Receivable Collection Period (RCP)} / \text{Days of Account Receivable Turnovers}$

Additionally, it is an independent variable, and the company employs a collection policy that indicates the number of days the company receives payment from the consumer. (Gul (2013) and Albdwy (2014)) $\text{Average Collection Period} = \text{RCP} = (\text{Trade Receivables} / \text{Net Sales}) * 365$.

$\text{Days of Inventory Turnovers} / \text{Period of Inventory Conversion (ICP)}$ The time frame during which inventory is transformed into a finished product and sold out is referred to as the inventory turnover days. This is an independent variable as well.

(Gul ,2013 and Albdwy .,2014) $\text{Inventory Turnover Period} = (\text{Inventory} / \text{Cost of Sales}) * 365$.

10.2. Days of Account Payable Turnovers / Payable Deferral Period (PDP)

When a business purchases goods or raw materials and then promptly settles its debt. This is an independent variable as well.

$\text{Average Payment Duration}$ is equal to $(\text{Trade Receivables} / \text{Sales Cost}) * 365$. (Aldwy .,2014 and Gul .,2013).

11. Conceptual Framework of the Study

Independent Variables

Working Capital Management (WCM)

Inventory Conversion Period (ICP)

Receivables Collection Period (RCP)

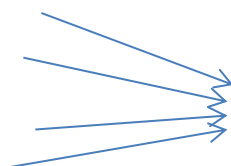
Account Payable Deferral Period (PDP)

Cash Conversion Cycle (CCC)

Dependent Variables

Profitability

Return on Total Assets (ROA)



This conceptual framework is based on the work of Padchi (2006) and Dellof (2003), where the variables' dependencies and flows are identical. The model serves as the foundation for the development of the following hypotheses.

Conjectures:

H1: Return on Total Asset (ROA) is negatively impacted by the Inventory Conversion Period (ICP).

H2: Return on Total Asset (ROA) is negatively impacted by the Account Receivable Collection Period (RCP).

H3: Return on Total Asset (ROA) is positively impacted by the Account Payable Deferral Period (PDP).

H4: Return on Total Asset (ROA) is negatively impacted by the Cash Conversion Cycle (CCC). Methodology

11.1. Research Type

By concentrating on the Pakistani textile industry and employing both quantitative and qualitative research methodologies to examine data, this study will make a valuable application to applied research.

11.2. Population

The population chosen for the research study was the textile industry. There are 155 textile companies in all, listed as non-financial businesses on the Pakistan Stock Exchange (PSX).

11.3. Techniques for Sampling and Sample

The sample of twenty (20) textile enterprises will be chosen using cluster random sampling based on many factors like efficacy, necessity, cost, and time constraints. The Pakistan Stock Exchange (PSX) data portal site will be the source of the textile industry's four-year data, which will cover the years 2015 through 2018.

11.4. Unit of Analysis

Our unit of analysis will be Pakistan's textile industry. In the textile industry, there are three types of firms: textile spinning, textile weaving, and textile composite, with 85, 14, and 56 enterprises in each category, respectively. enterprises will be chosen at random from each category.

11.5. Research Model

In this research project, Pearson Correlation will be utilized to determine the link between various factors. Return On Assets (ROA) is the profitability factor, and the components of Working Capital Management (WCM) are Inventory Conversion Period (ICP), Receivables Collection Period (RCP), Payables Deferral Period (PDP), and Cash Conversion Cycle (CCC). Using the experimental framework from Padachi (2006) and Deloof (2003), a regression model is created to determine the effects of working capital management on the profitability of textile firms.

11.6. Regression Equation

Regression equation of this research study is as under

$$ROA_{it} = a + b RCP_{it} + c ICP_{it} + d PCP_{it} + (CCC)_{it} + e$$

Where:

ROA = Return On Assets

RCP = Receivable Collection Period

ICP = Inventory Conversion Period

PCP = Payable Collection Period

CCC = Cash Conversion Cycle

e = Error

11.7. Data Analysis Tools and Techniques

In order to precisely analyze the extent of dependent and independent variables, time series data from the twenty companies in the specified Textile sector will be investigated. We will first analyze the variance and volatility using statistical methods.

The analysis of variation will be conducted using descriptive statistics. Regression in multiples Twenty (20) textile industry organizations will be subjected to correlation and coefficient procedures utilizing statistical computation software SPSS (Statistical Package for Social Science). Descriptive and quantitative data analysis findings will be presented in this study.

11.8. Descriptive Analysis

This analysis will begin with a descriptive analysis. It offers comprehensive details on each important variable and will be used to describe pertinent elements of phenomena related to the variables.

11.9. Inferential Analysis

Regression and correlation models are used in quantitative analysis to assess the strength and degree of correlations between various variables.

11.10. Correlation and Regression Analysis

In addition to measuring the strength of the linear link between two variables, correlation is used to assess the relationship's quality. To determine the association between all the variables in this study, the Pearson's correlation coefficient will be calculated. Regarding the relationship's heading, a positive correlation indicates that when one variable increases, so does another, whereas a negative correlation indicates the reverse relationship (Burns & Bush, 2006). Regression analysis will also be utilized to assess the causal relationships between the profitability variable and the other selected independent variables.

The information is followed by a pooled regression with cross-sectional and time series observations. Thus, the tactics used for the inquiry were Ordinary Least Squares and Summed Up Slightest Squares (cross section weights).

12. Results and Discussion

Three sections comprise the analysis of the study's results. The first section provides an explanation and justification of the 20 textile firms' descriptive statistics. The dependent and independent variables were correlated in the second phase to determine their relationship. The third section explains the sector-wide regression approaches for analyzing the total combined effect of independent variables that affect dependent variables

The following Table 1 shows the variables, measurement formulas, Abbreviations and type of the variables.

Table 1: Summary and Measurement of the Variables

Variables	Nature	Measurement	Abbreviations
Return on Assets	Dependent	Net sales / Total Assets during the period	ROA
Inventory conversion Period	Independent	(Inventory/Cost of good Sales) *365	ICP
Cash Conversion Period	Independent	(Account Receivable+Inventory Period)– Account Payable Period	CCC
Current Ratio	Independent	Current Asset/Current Liabilities	CR
Size of firm	Independent	LN(Sale)	F size
Sales Growth	Independent	(Sales _t – Salest-1)/Salest-1	SG

The Descriptive Statistics of 20 Textile Companies Listed on the Pakistan Stock Exchange (PXE) from 2012 to 2017 are shown in Table 2 above. This analysis examines the impact of WCM on the profitability of the textile business in Pakistan, utilizing a total of 120 observations. The Mean, Min, Max, and Std Deviation values of the observations are displayed using descriptive statistics. The dependent variable ROA has minimum values of -.37 and maximum values of .17, as can be seen in the accompanying table. The mean of ROA is 0.0152 and the standard deviation is 0.06938, as indicated by the descriptive statistics above. The standard deviation is 375.5837 while the mean value of ICP is 136.3126. With a standard deviation of 673.1342, the CCC variable mean is

111.5665. The current ratio's mean is 1.66716, with a standard deviation of 1.929935. Fsize has a mean of 6.3384 and a standard deviation of 0.93352. SG has a mean of -0.4723 and a standard deviation of 2.76807.

Table 2: Descriptive Statistics

Variables	Obse	Mean	Minimum	Maximum	Std. Dev.
ROA	120	.0152	-.37	.17	.06938
ICP	120	136.3126	0	3935.819	375.5837
CCC	120	111.5665	-4095.823	5018.506	673.1342
CR	120	1.66716	.11	11.81151	1.929935
Fsz	120	6.3384	.00	7.74	.93352
SG	120	-.4723	-24.60	1.00	2.76807

Table 3: Regression Analysis

Source	SS	Df	MS	No of Obser =	120
Model 1	.103722785	5	.020744557	F (5, 114) =	5.04
Residual 1	.469155756	114	.004115401	Prob > F =	0.0003
Total	.572878542	119	.004814105	R-squared =	0.1811
				Adj R-squared =	0.1451
				Root MSE =	.06415

ROA	Coef.	Std. Err	t	P> t	[95% Coef. Interval]
ICP	.0000763	.0000297	2.57	0.011	.0000175 .0001352
CCC	-.0000492	.0000166	-2.97	0.004	-.000082 -.0000464
CR	.0095434	.0031311	3.05	0.003	.0033408 .0157461
F size	.0313721	.0082764	3.97	0.000	.0149767 .0477676
SG	.0023491	.00233	1.01	0.316	-.0022667 .0069649
_cons	-.2033209	.0551805	-3.68	0.000	-.312633 -.0940087

Table 3: Dependent variable Return on Asset is known as ROA. The business's cash conversion cycle (CCC), inventory conversion period (ICP), current ratio (CR), firm size (F size), and sales growth (SG) are the independent variables described in this manner. The presence of a significant association between the variables is indicated when the value of t is greater than 2. The variables are significant at 5% since the values of the t tests for the ICP, CCC, CR, and F size value in this case are 2.57, -2.97, 3.05, and 3.97, which are all greater than 2. The relationship between the value of t and the growth in sales is minimal, as the value of t is less than two.

However, this outcome is comparable to that of Khan and Shah (2009) and Khemies (2010). The current values of ICP, CR, and F size are greater than 2, indicating a noteworthy and favorable influence on Return on Asset, whereas SG has a positive but negligible effect on ROA. Return on Asset is significantly and negatively impacted by the CCC. R square panel regression has a positive value of 0.1811, indicating an 18% accuracy rate for the model.

VIF (Variance Inflation Factor) is seen in table 4. Regression analysis multi-collinearity is identified by VIF. when the explanatory variables exhibit a correlation Multiple collinearities are present. Broks (2008) discusses multi-colenearity. Multi-colenearity variable identification is done using a test similar to the VIF test. For multi-colinearity tests of five and ten, researchers often utilize one of two VIF thresholds. Wouldrige (2010) claims to have employed the VIF and suggested that multi-colenearity does not exist if the coefficient estimation starts between -50 and +50 percent. Because of this, the current analysis discovers that there is no multi-colenearity between the independent variables, with VIF values falling between -50 and +50 percent.

Table 4: VIF

Variables	VIF	1/VIF
ICP	3.60	0.277880
CCC	3.59	0.278250
F size	1.73	0.579347
SG	1.20	0.831345
CR	1.06	0.947085
Mean VIF	2.24	

The correlation matrix for table 5 displays the correlation between the variables. The table's whole values demonstrate the correlation between the two variables. To summarize the data, a correlation matrix is employed as a component of a progressive analysis. The correlation effect of ROA with other factors is seen in Table 5. ICP, CR, and F size SG were found to positively

correlate with ROA, however CCC had a negative connection. While F size and SG have a negative association with ICP, CCC and CR have favorable correlations with it. While SG has a negative association with CCC, CR and F size have positive correlations with it. SG was positively connected with CR although F size was negatively correlated. F size and SG positively connected.

Table 5: Correlation matrix

	ROA	ICP	CCC	CR	F size	SG
ROA	1.0000					
ICP	0.0315	1.0000				
CCC	-0.0497	0.7470	1.0000			
CR	0.2215	0.1091	0.1220	1.0000		
F size	0.2233	-0.2060	0.2362	-0.0910	1.0000	
SG	0.1690	-0.3178	-0.1360	0.0816	0.2841	1.0000

13. Conclusion

Because working capital management has a major impact on a company's liquidity and profitability, it is a valuable asset to businesses. The working capital mechanisms, such as the inventory conversion period and the cash conversion cycle, must be carefully achieved over an extended period of time by the company management if he hopes to maintain smooth business operations going forward. This is because these mechanisms boost the profitability of the business. This study examines the impact of WCM on profitability in Pakistan's textile industry between 2012 and 2017 using tests of correlation and regression, as well as cluster random sampling to choose 20 businesses.

This study confirms that working capital utilization has a significant impact on Pakistani textile companies, and that profitability is influenced by working capital utilization that is done well. Research indicates that a company's profitability declines as its inventory turnover period lengthens. The timely conversion of raw materials into finished goods so affects the firm's profitability. The study found no evidence of a significant relationship between profitability and the cash conversion cycle (CCC).

13.1. Suggestions

The study's conclusions are followed by the following recommendations for the Textile Company in particular and for any other manufacturing-related issues in general. The results apply to all commercial organizations with production capability.

Managers in the textile sector should also keep the right amount of inventory on hand in order to convert raw materials as quickly as possible, lowering overall costs and increasing profit by cutting down on resource waste and holding costs. The findings suggest that in order to boost profits, Pakistani textile companies should maintain an ideal level of Cash Conversion Cycle. This may only be likely if Textile Company takes into account each step of the cash conversion cycle.

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