Impact of Working Capital Management on Profitability of Textile Sector of Pakistan

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Abstract

Working capital can be considered as source of existence for a financial body and management of working capital is regarded as one of the most essential part of business management. This study aims to find out the impact of working capital policies on profitability. Return on assets is used as a measure of profitability. Current assets to total assets ratio is used to compute the investment policy of working capital management and to determine financing policy of working capital management current liabilities to total assets ratio is used. Other variables that are used in this study are quick ratio, debt to equity ratio and size of the firms. Secondary data of 117 textile firms listed on Karachi stock exchange is taken for a period of six years i.e. 2005-2010 to calculate all these variables. Results of the regression analysis show that aggressiveness of working capital management policies is negatively associated with profitability. Moreover liquidity and size of the firm have positive relation profitability whereas debt to equity ratio is negatively correlated with profitability. Textile sector is one of the majors sectors of Pakistan. It needs due consideration regarding the management of assets and liabilities. So, the aim of this study is to provide some useful recommendations for the people responsible for the management of this sector. This study also establishes the basis for future research in this area of business.

Key Terms: Working Capital Management, Profitability, Textile Sector, Pakistan