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Financial ratios impact on financial performance of textile industry a case study (Gul Ahmed Textile and Nishat Mills)

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Abstract

The aim of performing this research is to find out financial ratios impact on financial performance of GATM and NML to evaluate which company is performing better.. This research was important because of the problems, they both are competitors and the investor should what are their positions and performance it is important for the companies too through which they can identify which ratios to be considered while evaluating financial performance. For the purpose of this research, I collected the data of 2 companies GATM and NML from Standard capital security website and from firm's annual reports for the period starting from 2003 to 2017. Furthermore, I considered two measures of financial performance, which are return on asset. and return on equity. I also considered liquidity position which is measured by current ratio, quick ratio, total asset turnover, fixed asset turnover, inventory turnover) and solvency position by debt to equity debt to total asset and interest coverage ratio, which according to previous researches and conditional theories have adequate impact on financial performance. The findings of this research suggest that current ratio, quick ratio and inventory were the major determinant of liquidity and for no determinant has significant impact and the researches should consider other variable than studied for solvency. The result also shows that both companies are performing better but NML liquidity position is better than NML also both companies ROE and fixed asset turnover shows insignificant difference rest are significant.

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Introduction

The sector of textile plays a significant part in the Pakistan's exports. Pakistan is the eighth biggest textile products exporters in Asia. The industry's commitment to the aggregate GDP is 8.5%. It gives work to around country 30% labor power of around 49m. The yieldtotal, which is produced annually by the global textile trade, is 18trillion USD, whichis constantly growing at therate of 2.5%. Pakistan's offer is share not more than one percent out of total. The improvement of the Sector of manufacturing has always been given the most important consideration since establishing Pakistan with significant weight on Industries Agro-Based. It was one of the major cotton producers on the planet for Pakistanthe advancement of a Textile Industry is making economies of scale of its rich resources of cotton products has been of high significance to industrialization.Currently, 1,221 ginning units are there, 124 vast spinning units,442 spinning units and 425 little units, which deliver product of textile.

Textile is composed of substantial function well-ordered sector and a greatly shattered cottage /little-scale sector. The different divisions that are related to the value chain of textile are: spinning also it involves the largest part in a collected way inbound dyeing and weaving facilities. Weaving made out of medium sized and the little entities. The handling area in the industry involves,printing,coloring and completing sub-segments, just as a piece of thisdivisionis working in a very well-ordered state, ready to procedure huge quantities while whatever is left of the units work as medium and the littleunits of sized. The fragments of printing have influenced the general processing sectorby textile coloring and bleaching of fabric. The piece of clothing fabricating portion created the highestemployment inside the value chainoftextile in the country. More than 75% of the component involves little size of units. The knitwear venture generally comprises of manufacturing plants working as merge units (processing+sewing+ making up facilities). The apparel piece both woven and sews are for the most part bundling in Karachi– Faisalabad and Lahore where sufficientladies work is approachable.

The world's fourth biggest maker is Pakistan and the also biggest buyer of cotton in the world. The sector of clothing and textile has always been the main driver of the economy all over the previous 50 years as far as the employment creation through this sector and foreign currency earnings. The Clothing Industry and Textile will keep on being a front player for following growth or progression of the economy; there are no services area or substitute industry, that can perhaps increase the profit of the economy with foreign currency earnings through foreign trade and new occupation creation by the industry.Especiallyif cooperative energy is thriving among all the other different sub sectors and endeavors are also to vigorously grow the Clothing Sector and Readymade. The Textile Industry of Pakistan had demonstrated its quality in worldwide market in past few decades. It has expanded its capacity in post share time through fortify its position, additionally indicating growth during 2005 to 2007, however diminished to 11.1 dollar billion out of 2008 because of financial and financial fall or crisis internationally.The Garment industry and especially the Knit Garment Sector require extraordinary concentration on strategies in future.

The Gul Ahmed Group started trading in textiles in the 20th century. Gul Ahmed textile coordinated as a privately limitedcompany.Gul Ahmed Textile Mills Limited is a freely held enterprise giving an extensive variety of textile products fundamentally in Pakistan and having a large export base. The company was recorded on the (KSE) Karachi Stock Exchange in 1972.The Company has obtainedthe fast growth and is asthemajor composite textile sector in the planet. Over a long time since its commencement, the nameofGul Ahmed textile is still globally identical with quality, development and reliability.

The Group today has developed into an aggregate and incorporates Gul Ahmed.It also start the recently a chain of retail outlets has been accepted under the name "ideas by GAMT".(MalihaKhaqan, 2016)

Nishat is a conspicuous business leader and a standout amongst the most prospered and differentiated leading textile organization in Pakistan. It is out of the box services include unbeaten textile assembling, a winning concrete industry and trust commendable banking. Its great execution is the subsequent combination of exceedingly effective HR, financial body andmost noteworthy commitment alongside the matchless concentrate on quality, efficiency, productivity and reliability. Nishat Mills Limited, the leader organization of Nishat group is the biggest synthesis textile set up in Pakistan.

Nishat textile is capable for assembling around nine million meters of handled fabric every month. The product variety in corporate window treatments, bedding groups, kitchen articles and frontroom textile with low and high string countfabric. The organization has a dynamic research group with inquire about strategies and exploiting the vertically joined set up and continues making new product ideas in home textile and present day fashion collection. (MalihaKhaqan, 2016).

Pakistan's textile industry is confronting decrease in its performance; these decays were enrolled in the assembling sector, which were dependent on the business sectors of created world. Its consequences werefoundin creating country, such as, Pakistan, India and Bangladesh and so forth. Additionally, progressing financial crises, such as, unbalanced trade (imports are in effect high and the exports are narrowing down), it has influenced the textile industry economicallyas well as fiscally.Investment and Employmentare suspected to be influenced most by this crisis.

The Pakistan economy most importantsector is a textile industry. Contributing around 46% to the employment and 57% to the export profit.(Imran Alam, 2011). The organizations which is selected organizations (Gul Ahmed Textile Ltd. andNishat Mills) for this research was additionally influenced by that financial crisis accordingly an endeavor has been made in analysis of financial performance of the organizations to see management of financeplaysa crucial role in the development. This research will utilize financial ratio investigation to measure, profitability position(in terms of sales and net income), liquidityposition (current liabilities as forcurrentassets coverage),andsolvency position (debt to asset and debt to equity) of the textile organization of Pakistan. The investigation additionally attempt to present past performance estimation pointers and to demonstratethe modern pattern to its current financial position. This research represents and speaks to a push to explore how textile sector can advance to address the necessities and difficulties of the worldwide condition as well as increasing the stakeholder's value from now and then.

This research is to identify the financial position of the textile sector. The investigation is concentrated on analyzing the liquidity, profitability, andsolvency position ofthe selected textile organizations. In addition, to know at what extent the selected textile companies has used their available resources effectively.

In this study Financial, performance analysis is the way toward deciding the operating and financialattributes of a company fromfinancial statements andaccounting. The capability of a company to evaluate itscurrent monetary position is fundamental for upgrading its aggressive position in the marketplace. Throughout a long-sighted analysis of its financial execution, the firm can investigate possibility to enhancedivision's performance, unit or organizational level.

Return on assets measures the returns generated by an organization through its assets.

Return onAssets (ROA) =Net income/ totalassets

Return on equity is used to measuresthe returns earned by an organization on its capital equity which also includes common equity.

Return onEquity (ROE)=Net income/Average totalequity

The current ratio is used to measure an association's capability to write off its all present debt (the all payable inside one year) through its all present resources available in a business, for instance, debtclaims,inventories and cash. The higher the rate is the superior the firm's liquidity status or position.

Current Ratio = current Assets/CurrentLiabilities

The quick ratio is used to measures an association's capability to meet the all its short-termduties that owed the business by its most fluid or easy cash converted resources and thusly wiping out inventories from its present assets.

Quick Ratio =Current Assets – Inventories/ CurrentLiabilities

The Inventory TurnoverRatiois used to measure the management of the Inventory of a company. A higher ratio of Inventory Turnover is demonstrative of the better performanceof an organization since this shows the company's inventories which is manufactured are being sold all the more rapidly. But if the ratio of inv. turnoveris too high then it is to be believed that the firm is losing its deals against their rivals due to lack of thestock availability.

Inventory Turnover = COGS / Inventory

The Fixed Assets Turnover Ratio it's used to measure the company productivity in dealing with its Fixed Assets which are being utilized to generate sales or profits.

Fixed AssetTurnover = Sales / Net FixedAssets

The TotalAssets Turnover Ratio is used to measure the productivity and efficiency of the firms in managing all the assets which an organization has to generate Sales.

Total AssetTurnover = Sales / Total Assets

Debt/Equity Ratio is a debt ratio which is used to measure the financial leverage of a business or an organization. The D/E ratio shows how much debt the organization is utilizing to finance its assets in respect to the amount of worth in shareholders' equity.

Debt/Equity Ratio = Total Liabilities / Shareholders' Equity

This ratio is used to measure theobligation adjusting of anorganization, as far as the fixed interest on long-term advance, which is owed by the business is concerned. It can be measured by dividing the (EBIT) earning before Interest and Tax by the fixed interest charges.

Interest Coverage Ratio = EBIT/ InterestExpens

Literature review

The textile industry and manufacturing productivity have been widely studied by researchers across the globe. There are a numberof studies that cover productivity in Pakistan manufacturing and textile industry in particular.

Financial ratio is a financial analysis instrument that is usually used. Financial ratios are used to connect the different forecast that contained in the accounting statements so that the business condition and consequence of the operations of a company can be narrated. As defined by the Noel, John and Scott (1990) elements of a firm, an industry and business fiscal performance can be utilized as estimates of individual links in models connecting different hypothesized causal variables of diverse performance measures. Ratio is a useful guidance in assessing the firm'sfiscal situation and the operating consequence and comparing with the previous years or other companies.Mansur (2003)measured the textile sector's financial performance, utilizing ratio analysis, to check the operational and financial efficiency. Liquidity ratios, debt ratios, activity ratios Liquidity ratios profitability, and obligation ratios basic compute risk; profitability ratios measure return by(Epstein&Owens in 1995).Also it is said the liquidity, solvency and profitability ratios have an effect on the firm's financial performance by (Vanitha and Selvam, 2010). Furthermore, greater liquidity indicates that the firm is in stable position, while greater leverage is an indication of warning that the firm is at risky

position. Therefore, the point is that the greater the risk, the more return you can expect. In addition to this, researchers also accepted that a greater profitability shows that firm is more efficient. Because of this evaluating the financial performance of the cement, we will use Profitability ratios in which will use ROA and ROE as the indicators of the financial performance.

(Bambang, 2010) that monetary ratio is the estimation method workby a business to estimate and explain its economic place. (Wachowicz&Horne,2007)gives another definition by saying that monetary ratio is "an index which with connects the conclusion and accounting numbers is achieved by dividing one specificnumber to another". The information source of financial ratio is imminent from accounting statements prepared by firms year by year. Primarily, in this case there are two ways that can be utilized in calculating monetary ratio: the time series analysis and cross sectional. Cross sectional analysis points in contrasting the financial ratio of business at the constant pinpoint of time. It attempt to make a contrast of a business's ratios to the mean of the industry. (Zutter&Gitman, 2012).Another way for calculating monetary ratio is time series analysis, where it is utilized toanalyze financial performance of a firm over time. The factor being contrasted is right now to past performance that will allow analyst, shareholder and investors to track the business's achievement(Zutter&Gitman, 2012).As well as, (Zutter&Gitman, 2012**)**categorized financial ratio into five main categories: debt ratio, liquidity ratio, profitability ratio, , market ratio and activity ratio. Past studies conducted by different researchers utilize one indicative ratio for each financial ratio.(Ramanathan and Hingorani,1973) explained financialanalysis as a complex study of the causative associationof profitability and financial position. Financial analysis includes three steps: collection, correlation and assessment of financial statements. Appropriate and Proper evaluation of textile industry or more specifically of any the performance of company is not significant for borrowers, financier and the stakeholders but financial analysis is also for the firms which are rivaling with one another in the same industry or sector.

The performance of an organization depends on particular elements like as share in market, reduction of cost, and profitability. Financial measures that shows performance include,(ROI) return on investment,(EPS) earnings per share, operating cash flows,(ROI)return on investment return on equity (ROE), (Sørensen, 2002).(Prasad et al., 2011) company's financial well-beingis asubstance which should be considered by both the investorsand also every stakeholder related to the business.(Rashid et. Al. , 2003) evaluate the financial performance of corporations based on the current ratio, ROI, and return on assets (ROA), and find that it has raised in the past few years.(Ho and Wu, 2006) use firms' financial statements to study a range of financial ratios, which includes profitability, liquidity, leverage, asset utilization, and growth..

(Gopinathan,2009), He studied in his research about the profitability ratios such as,(ROE ratio)Return on equity,(ROA ratio)Return on assets, However, he also stated that the Gross Profit isbelieve to be in the surplus that is created by sales over COGS. He discussed as:

(ROA) Return on assets is a diversified estimate of whole bank operation from a financial point of view as said Sinkey and Joseph in 1992.Return on Assets is usually defined as the primary ratio. Thisratio shows how much revenue/profit/ incomeis earned by each or assets. It indicates whether the firm is utilizing its assets investment well. The return on assets is measuredbycut up the amount net income by the amount of total assets.

ROE estimates a firm's profitability by declaring how much income a firmproduce the shareholder's investment. The higher the ROE, the financial performance of organization profitability is more efficient.

(ROE)Return on equity is also a measure of how management effectiveness is at using equity funding to fund the operations and develop the firm.

(Gopinathan , 2009), he additionally expresses that the ratios of liquidity assist financially well. He states that if a venture has high gainfulness, it can confront here and now financial problem and its resources are connect up receivables and inventories not workable for a considerable over a period of time. Any incapability to meet these, which can harm its reputation and reliability and in extraordinary causes even prompt liquidation. He also state the ratios of liquidity are the work with cash and closing cash/liquid assets of a business on a side, and the prompt installment commitments such as current liabilities on the opposite side. He also explained in his study that the near-cash assets for the most part incorporate receivables from clients and also includes inventories of completed goods and raw materials. In addition, the current ratios also consider every other things that goes into a business' working capital, and it also gives a fast take a gander at its short term financial status. Current resources incorporate Cash, receivables, Marketable securities, all other Cash equivalents, and lastly the Inventories. Current obligations incorporate the payables, notes payables, accrued expenses, and the accrued portions of term obligation.

The current ratio is used to measure an association's capability to write off its all present debt (the all payable inside one year) through its all present resources available in a business, for instance, debt claims, inventories and cash. The higher the rate is the superior the firm's liquidity status or position.

The quick ratio is used to measures an association's capability to meet the all its short-term duties that owed the business by its most fluid or easy cash converted resources and thusly wiping out inventories from its present assets.

(James Clausen, 2009) studied about the total asset ratio. The calculation which he used consists of two variables, total assets and the total revenue or sales. While figuring out for a specific year the total revenue for the same year is utilized. Rather than utilizing the closing balance of total asset extracted from the B.S, it will give a more precise picture of the utilization of the total assets in that particular year.

Munya Mtetwa (2010), briefly explained in his study about the fixed assets. He characterize that the fixed assets are the assets which are utilized as a part of production of goodsankd services or the supply ofgoods and the services which are to be utilized within a fiscal year. Fixed assets are to believe revenue generating assets for the long term, it can be tangible and also intangible. It incorporates, Land, buildings, plants, equipment, machinery, hotels, universities etc. depending on the businesses' nature.

(Jo Nelgadde, 2009), figure out how to perform stock/inventory analysis to better comprehend a business and in addition to distinguish viable inventory management. He analyzed that the inventory analysis is necessary in evaluating a company's financial performance.

Solvency ratios puts up a light on the extended solvency or leverage of a firm also the liquidity ratios on the short-term solvency of a business. These measures are used to determine the long-term feasibility related to finance of a venture and its capacity to write off the long-term debts of a business, for example, bonds payable and bank advances. It is basic for government, banks, workers, institutional financial specialists, proprietors, investors, and so forth**.** (Obaid, 2011). The ratios of solvency or which is also known as ratios of leverage include debt-to-equity ratio, the interest coverage ratio and lastly the debt-to assets ratio.

This ratio shows the organization's level of financial power that is used by the firm and it incorporates long-term as well as the short-term debts. An emerging Debt-Equity ratio recommended higher rate of interest expenses and after a specific point it might influence a firm's rating in credit terms, making it even more costly to bring more debts to the business.

This ratio is used to measure the obligation adjusting of an organization, as far as the fixed interest on long-term advance, which is owed by the business is concerned. It can be measured by dividing the (EBIT) earning before Interest and Tax by the fixed interest charges.

This ratio is a pointer of solvency ratio. It gives the - level of total assets that were financed by banks, liabilities, debt. Debt-total asset ratio is the extent of aggregate liabilities to add up to resource. It demonstrates what extent of the organization's benefits is being financed through debt.

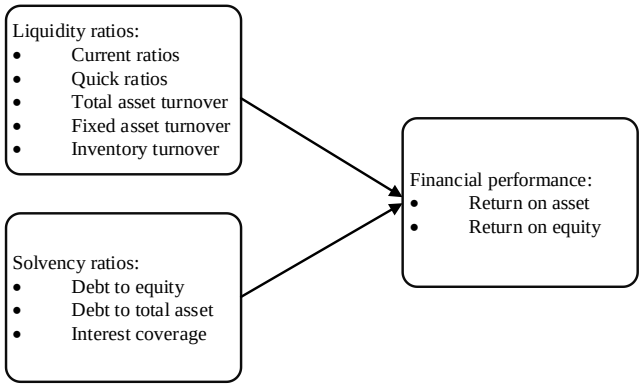

Fig.1. Hypothetical model

H1 (a): Inventory turnover has an impact on ROA
H1 (b): Inventory turnover has an impact on ROE
H2 (a): Fixed asset turnover has an impact on ROA
H2 (b): Fixed asset turnover has an impact on ROE
H3 (a): Total asset turnover has an impact on ROA
H3 (b): Total asset turnover has an impact on ROE
H4 (a): Current ratio has an impact on ROA
H4 (b): Current ratio has an impact on ROE
H5 (a): Quick ratio has an impact on ROA
H5 (b): Quick ratio has an impact on ROE
H6 (a): Debt to equity has an impact on ROA
H6 (b): Debt to equity has an impact on ROE
H7 (a): Debt to total asset has an impact on ROA
H7 (b): Debt to total asset has an impact on ROE
H8 (a): Interest coverage ratio has an impact on ROA
H8 (b): Interest coverage ratio has an impact on ROE

Research method

The approach that will be used in this research, will be comparing the two companies Gul Ahmed textile mills and Nishat mills. The extensive approach is to figure the intensity of these measures over different time periods and to illustrate interventions from changes in the intensity of these measures. For financial performancemeasure we will use (ROA and ROE). In liquidity measure (current ratio, quick ratio, inventory*turnover*, fixed assetturnover and total asset turnover) will be use. In solvency measure (debt to equity, debt to total asset and interest coverage ratio) will be use. The explanatory research approach will be used for this studyas the purpose is to explain the relationship between the financial ratios with the financial performance.

This research study aims to identifythe impact of liquidity ratios and solvency ratios on return on asset and return on equity of the Gul Ahmed textile mills and Nishat mills, therefore this research will be the causal research.

The sampling for this research is based on the criteria that the company should be listed on the stock exchange also should have at least 15 years of data available for the study purpose.

The collection and analysis of data are very important part of the research papers. The data which is conducted for this paper is the secondary data and gathered from the Standard Capital Security websites and companies' annual reports and financial statements. Data collected of Gul Ahmed textile mills and Nishat mills which is listed on Pakistan Stock Exchange website and the data will be from the year 2003 to 2017.

The data collected from the standard capital security website as the data of Gul Ahmed textile mills and Nishat mills are available on the website of at least five years. Additionally, the other ten years' data were collected from the company's annual reports.

The data collected is then used for statistical analysis and for the evaluation of the financial performance of the Gul Ahmed textile mills and Nishat mills.The technique which is used to analyze the data is simple regression to analyze the relationship of independent variables on dependent variables using SPSS. Additionally, there will be the comparison between the companies with the help of independent t-test to analyze which company is performing better financially.

Results and findings

The sample to analyze the impact of liquidity ratios and solvency ratios on return on asset and return on equity contains data of two companies of the textile sector of Pakistan i.e. Gul Ahmed textile mills and Nishat mills for the period of 15 years which makes the sample a panel data, .the technique which is used to analyze the data is simple regression to analyze the relationship of independent variables on dependent variables using SPSS. Additionally, there will be the comparison between the companies with the help of independent t-test to analyze which company is performing better financially.

As we have already discussed that we used liquidity ratios and solvency ratios impact on return on asset individually than return on the equity. In the outputs the sig. value less than 0.05 represent significant relationshipbetween dependent and independent variables and probability more than 0.05 represent insignificant relationship between dependentand independent variables. Furthermore, the value of R square will represent the percentage variation explainedby all significant independent variables only in dependent variable, and the value of R square will represent the percentage variation explained by all independent variables in dependent variable.

Table 1: Model summary

Compsny Name	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
GATM	1	*.851*[a]	*.723*	*.170*	*2.0335875*
NML	1	*.891*[b]	*.794*	*.519*	*2.3250647*

Table 2:ANOVA[c]

Company Name	Model		Sum of Squares	df	Mean Square	F	Sig.
GATM	1	Regression	43.270	8	5.409	1.308	.423[a]
		Residual	16.542	4	4.135		
		Total	59.812	12			
NML	1	Regression	124.976	8	15.622	2.890	.106[b]
		Residual	32.436	6	5.406		
		Total	157.411	14			

Dependent variable: ROA.

In this part of the table of result, the data is analyzed on company basis the values which are to be considered most are the values of R Squared. Looking at this table, it can be inferred that the value of R Squared is 0.723 which means that 72.3% of the variations in ROA of GATM are due to variations in interest coverage ratio, quick ratio, inventory turnover, fixed asset turnover, debt to asset, total asset turnover debt to equity and current ratio and 0.794 which means that 79.4% of the variations in ROA of NML are due to variations in interest coverage ratio, quick ratio, inventory turnover, fixed asset turnover, debt to asset, total asset turnover debt to equity and current ratio. But ANOVA is having, a sig. value of GATM 0.423 and NML 0.106 which is higher than 0.05 so it indicates the model is not fit.

Table 3: Model summary

Company Name	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
GATM	1	.955[a]	.913	.738	4.5433395
NML	1	.988[b]	.976	.943	.8482316

Table 4:ANOVA[c]

Company Name	Model		Sum of Squares	df	Mean Square	F	Sig.
GATM	1	Regression	861.547	8	107.693	5.217	.064[a]
		Residual	82.568	4	20.642		
		Total	944.115	12			
NML	1	Regression	173.138	8	21.642	30.080	.000[b]
		Residual	4.317	6	.719		
		Total	177.455	14			

Dependent variable: ROE

Also in this part of the table of result, the data is analyzed on company basis the values which are to be considered most are the values of R Squared. Looking at this table, it can be inferred that the value of R Squared is 0.913 which means that 91.3% of the variations in ROE of GATM are due to variations in interest coverage ratio, quick ratio, inventory turnover, fixed asset turnover, debt to asset, total asset turnover debt to equity and current ratio and 0.976 which means that 97.6% of the variations in ROE of NML are due to variations in interest coverage ratio, quick ratio, inventory turnover, fixed asset turnover, debt to asset, total asset turnover debt to equity and current ratio.But ANOVA is having a sig. value of GATM 0.064 which is higher than 0.05 so it indicates the model is not fit for GATM, but NML sig. value is 0.000 which is less 0.05 indicates the model is fit for NML.

Table 5: Coefficients[a]

Comp Name	Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
			B	Std. Error	Beta		
GATM	1	(Constant)	-17.414	54.915		-.317	.767
		Current_Ratio	20.224	45.529	.457	.444	.680
		Quick_Ratio	24.272	24.200	1.661	1.003	.373
		TotalAsset_Turnover	2.872	21.236	.361	.135	.899
		Inventory_Turnover	-1.899	3.123	-.660	-.608	.576
		FixedAsset_Turnover	1.360	5.441	.605	.250	.815
		Debt/Equity	-.043	.070	-.857	-.607	.577
		Debt/Asset	-.058	.264	-.185	-.218	.838
		Interest_Coverage	1.662	1.419	.533	1.171	.307
NML	1	(Constant)	1.308	11.768		.111	.915
		Current_Ratio	-28.283	14.242	-4.304	-1.986	.094
		Quick_Ratio	28.032	14.186	4.497	1.976	.096
		TotalAsset_Turnover	-3.440	25.254	-.173	-.136	.896
		Inventory_Turnover	-1.513	1.035	-.617	-1.461	.194
		FixedAsset_Turnover	4.773	4.093	.997	1.166	.288
		Debt/Equity	-.250	.136	-2.742	-1.840	.115
		Debt/Asset	.830	.593	2.810	1.400	.211
		Interest_Coverage	1.044	.726	.532	1.437	.201

a. Dependent Variable: ROA

Here, the individual influences of all the variables are analyzed with the help of table. This part of the table 5 of output is related to the individual effects of interest coverage ratio, quick ratio, inventory turnover, fixed asset turnover, debt to asset, total asset turnover debt to equity and current ratio on ROA of the companies.

This table shows that interest coverage, debt to asset, debt/equity, fixed asset turnover, total asset turnover, current ratio, quick ratio and inventory turnover do not possess influence on the return on asset ofGATM on individual basis having sig-value higher than 0.05.

Also this table shows that interest coverage, debt to asset, debt to equity, fixedasset turnover, total asset turnover, current ratio, quickratio and inventory turnover do not possess influence on the return on asset ofNML on individual basis having sig-value higher than 0.05.

Table 6: Coefficients[a]

Comp Name	Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
			B	Std. Error	Beta		
GATM	1	(Constant)	-200.688	122.688		-1.636	.177
		Current_Ratio	213.202	101.720	1.212	2.096	.104
		Quick_Ratio	94.251	54.067	1.624	1.743	.156
		TotalAsset_Turnover	52.788	47.444	1.668	1.113	.328
		Inventory_Turnover	-11.625	6.978	-1.016	-1.666	.171
		FixedAsset_Turnover	-9.097	12.155	-1.019	-.748	.496
		Debt/Equity	-.040	.157	-.200	-.252	.814
		Debt/Asset	-.665	.589	-.539	-1.129	.322
		Interest_Coverage	7.464	3.171	.603	2.354	.078
NML	1	(Constant)	-37.058	4.293		-8.632	.000
		Current_Ratio	33.696	5.196	4.829	6.485	.001
		Quick_Ratio	-33.057	5.175	-4.995	-6.388	.001
		TotalAsset_Turnover	-8.093	9.213	-.384	-.878	.413
		Inventory_Turnover	3.036	.378	1.166	8.039	.000
		FixedAsset_Turnover	.804	1.493	.158	.538	.610
		Debt/Equity	-.074	.050	-.765	-1.494	.186
		Debt/Asset	.510	.216	1.627	2.359	.056
		Interest_Coverage	.507	.265	.243	1.914	.104

a. Dependent Variable: ROE

Here, the individual influences of all the variables are analyzed with the help of table. This part of the table of output is related to the individual effects of interest coverage ratio, quick ratio, inventory turnover, fixed asset turnover, debt to asset, total asset turnover debt to equity and current ratio on ROA of the companies.

Table 6 shows that interest coverage, debt to asset, debt to equity, fixed asset turnover, total asset turnover, current ratio, quick ratio and inventory turnover do not possess influence on the return on equity of GATM on individual basis having sig value higher than 0.05.

Also this table shows that interest coverage, debt to asset, debt to equity, fixed asset turnover, total asset turnover, do not possess influence on the return on equity of NML on individual basis having sig value higher than 0.05. Only three of the independent variables have a significant influence on the return on equity which are current ratio, quick ratio and inventory turnover possessing sig. values of 0.001, 0.001 and 0.000 respectively.

- ROA sig. value is 0.002, which is less than 0.05 so it means there is significant difference between GATM and NML and there means are not equal.
- ROE sig. value is 0.118, which is greater than 0.05 so it means thereis insignificant difference between GATM and NMLand there means are equal.

- Current ratio sig. value is 0.012, which is less than 0.05 so it means there is significant difference betweenGATM and NML and there means are no equal.
- Quick ratio sig. value is 0.012, which is less than 0.05 so it means there is significant difference between GATM and NML and theremeans are not equal.
- Total asset_turnover sig. value is 0.000, which is less than 0.05 so it means there is significant difference between GATMand NML and there means are not equal.
- Inventory turn_oversig.value is 0.000, which is lessthan 0.05 so it means there is significant difference between GATM and NML and there means are not equal.
- Fixed asset _turnover sig. value is 0.091, which is greater than 0.05 so it means there is insignificant difference between GATM and NML and there means are equal.
- Debt /equity sig.value is 0.000, which is less than 0.05 so it means there is significant difference between GATM and NML and there means are not equal.
- Debt/total asset sig.value is 0.000, which is less than 0.05 so it means there is significant difference between GATM and NML and there means are not equal.
- Interest coveragesig. value is 0.000, which is less than 0.05 so it meansthere is significant difference between GATM and NML and there means are not equal.

Table 7: Gul Ahmed textile mills

S.N	Hypothesis Statement	Sig. Value	Result
1 (a)	Inventory turnover has an impact on ROA	0.576	Accepted
1 (b)	Inventory turnover has an impact on ROE	0.171	Accepted
2 (a)	Fixed asset turnover has an impact on ROA	0.815	Accepted
2 (b)	Fixed asset turnover has an impact on ROE	0.496	Accepted
3 (a)	Total asset turnover has an impact on ROA	0.899	Accepted
3 (b)	Total asset turnover has an impact on ROE	0.328	Accepted
4 (a)	Current ratio has an impact on ROA	0.68	Accepted
4 (b)	Current ratio has an impact on ROE	0.104	Accepted
5 (a)	Quick ratio has an impact on ROA	0.373	Accepted
5 (b)	Quick ratio has an impact on ROE	0.156	Accepted
6 (a)	Debt to equity has an impact on ROA	0.577	Accepted
6 (b)	Debt/equity has an impact on ROE	0.814	Accepted
7 (a)	Debt/total assets has an impact on ROA	0.838	Accepted
7 (b)	Debt to total assets has an impact on ROE	0.322	Accepted
8 (a)	Interest coverage ratio has an impact on ROA	0.307	Accepted
8 (b)	Interest coverage ratio has an impact on ROE	0.078	Accepted

Table 8: Nishat Mills

S.N	Hypothesis Statement	Sig. Value	Result
1 (a)	Inventory turnover has an impact on ROA	0.194	Accepted
1 (b)	Inventory turnover has an impact on ROE	0.000	Rejected
2 (a)	Fixed asset turnover has an impact on ROA	0.288	Accepted
2 (b)	Fixed asset turnover has an impact on ROE	0.610	Accepted
3 (a)	Total asset turnover has an impact on ROA	0.896	Accepted
3 (b)	Total asset turnover has an impact on ROE	0.413	Accepted
4 (a)	Current ratio has an impact on ROA	0.094	Accepted
4 (b)	Current ratio has an impact on ROE	0.001	Rejected
5 (a)	Quick ratio has an impact on ROA	0.096	Accepted
5 (b)	Quick ratio has an impact on ROE	0.001	Rejected
6 (a)	Debt to equity has an impact on ROA	0.115	Accepted
6 (b)	Debt to equity has an impact on ROE	0.186	Accepted
7 (a)	Debt/total assets has an impact on ROA	0.211	Accepted
7 (b)	Debt/total assets has an impact on ROE	0.056	Accepted
8 (a)	Interest coverage ratio has an impact on ROA	0.201	Accepted
8 (b)	Interest coverage ratio has an impact on ROE	0.104	Accepted

Conclusion

The target of this research study was to find-out financial ratios (liquidity and solvency) impact on financial performance (return on assets and return on equity) of textile industry of Pakistan (GATM and NML).

In this research, two dependent variables were considered of financial performance i.e. return on asset and return on equity. Moreover, independent variables were liquidity (inventory turnover, fixed asset turnover, total asset turnover, current ratio, quick ratio) and solvency (debt to equity, debt to total asset, interest coverage ratio). The data was gathered from the standard capital security website and company's financial statements. For the purpose of this research, GATM and NML data were collected for the period of 15 years starting from 2003-2017. We used regression analysis and independent t-test technique to analyze the data of different measures on return on asset and return on equity individually.

When the regression analysis was ran the result shows that when considering GATM, the independent variables explains insignificant impact on return on asset return on equity which means that there is no relationship between the taken independent variables and dependent variables when analyzed individually. However, when all the variables were taken as a cumulative it did show the impact on return on asset and return on equity.

When the regression analysis was ran the result shows that, when considering NML, some independent variables have significant impact on return on equity and return on asset when analyzed individually which are Current ratio, quick ratio and inventory turnover and the rest of the variables have no impact. However, when all the variables were taken as a cumulative it did show the impact on return on asset and (ROE)return on equity.

We used Independent t-test to compare both the companies. Gul Ahmed and Nishat Mills Ltd with each other, we can conclude that from the analysis of the data that both companies ROE and Fixed assets turnover means are equal which means they have insignificant difference between Gul Ahmed and Nishat Mills Ltd and the rest of the variables shows that there is significant difference between both the companies.

The determination of which financial ratios influencing the financial performance of a industry has always been one of primary issue for

top level management because by identifying certain factor management can specifically pay attention to that factor in order to maximize its returns.

The determinants of financial ratios has been studied various time in past years and the relationship between financial ratios with financial performance, has also been discussed many times in previous researches in many sectors of Pakistan's economy. As the textile sector being one of the largest sector is very popular among researchers and was researched by many. Therefore, this study also aims to find out which financial ratios have the most significant impact on financial performance of the GATM and NML. The outcome of this study shows that both companies ROE and Fixed assets turnover means are equal which means they have insignificant difference between GAMT and Nishat Mills Ltd and the rest of the variables shows that there is significant difference.

(Farah naz, 2014) found the same result also stated that asset utilization and profitability ratios are highly correlated with financial performance. This study confirms that liquidity ratios and solvency ratios have impact on the financial performance. While when considered individually with the regression analysis of the regarded company ROA and ROE of the GATM is not influence by the taken independent variables. Although return on asset and return on equity is influence by current ratio, quick ratio and inventory turnover. The other factors do contribute in influencing; the financial performance but individually they did not show any significant impact. When the independent test was ran from the analysis of the data that both companies ROE and Fixed assets turnover means are equal which means they have insignificant difference between Gul Ahmed and Nishat Mills Ltd and the rest of the variables shows that there is significant difference between both the companies that may be because both companies are limited companies and do not have equity financing.

As this study was aim to research, the liquidity ratios (current ratio, quick ratio, total asset turnover, fixed asset turnover and inventory turnover) and solvency ratios (debt to equity, debt to total assets and interest coverage) impact on financial performance (return on asset and return on equity) through which evaluating which company's position is better, the result shows that both companies performance is not affected by return on equity and fixed asset turnover and rest of the variables are significant.

The sample data used in this analysis was secondary data, since the data relevant for this study is only limited to solvency and liquidity position. Therefore, the analysis to find out the financial ratios impact on financial performance of GATM and NML. Other ratios may also be considered in order to evaluating the financial performance of both the companies.

Recommendations

It is recommended to the management of the specific companies that they should not consider interest coverage for analyzing solvency position and total asset and fixed asset turnover for analyzing the liquidity position, however they can consider variables like current ratio, quick ratio and inventory turnover for liquidity and debt to total asset for solvency. In addition to it there is also a need to study more about the more internal factors and for financial performance, return on investment should also be considered. Potential researchers should work on different country specific and company specific variables, so that they can introduce more variables, which can affect the financial performance of both the companies.

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