



## Impact of Liquidity Management and Asset Management on Firm Performance

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**Abstract:** The study aims to investigate the impact of liquidity management and asset management on firm's profitability in Pakistan. The evidence is based on the 50 non-financial firms over the period of 2017-2021. The firm's profitability is measured via returns on equity. This study used current ratio as a proxy of liquidity management. Whereas, total asset turnover ratio and fixed asset turnover ratio are considered for asset management. The findings based on static models, reveal that liquidity management positively affect the profitability of the firm. Similarly, the results support the positive role of asset management in shaping firm performance. This research found that both liquidity management and asset management, measured by various financial ratios, significantly and positively influence firm performance, supporting both hypotheses regarding their impact on return on assets and equity.

**Key Words:** Returns on Equity, Liquidity Management, Asset Management, Firm Performance

### Introduction

Environment has been changed by the world finance crises. This is to achieve the requirement of funds from the capital market after this change. Clup and Lexecon (2009) has said that All incapability of bank and capital market indicates that the CEO needs to focus on liquid assets and generate the funds. The liquidity and cash equipment and other assets is the current obligation of business. Zygmunt (2013) argued that is very important for firm because it's depended on the sales dynamic, financial growth, and the level of risk. Padachi, (2006) The internally fund generated by strong liquidity of small firms and insolvency is avoid by large firms. To control the reduction of assets and liabilities in such a means that the chance of avoidance (Priya & Nimalathan (2013)). When the firm hold excessive cash amount the marginal benefits of liquidity become less (Uremadu, Egbide and Enyi, 2012).

The relationship of profitability and performance may vary from sector to sector or firm to firm, but study cannot ignore the existence of this relationship. The favorable liquidity and performance growth is very helpful to drive stakeholders' behavior (Manyo and Ogakwu 2013). The firm's management is very important for good profitability and efficient and liquidity management and asset management. A reduced and diminishing movement of profitability shows a bad strategy of liquidity management and asset management. So, this study will show the connection between profitability and liquidity Variables. further this study determination tells the management the most important and easy factors to make the best and better management of liquidity and management of asset and profitability matters.

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the chance of avoidance (Priya & Nimalathasan (2013)). When the firm hold excessive cash amount the marginal benefits of liquidity become less (Uremadu, Egbide and Enyi, 2012).

Control of liquidity is not as easy as it appears. It involves unique important elements that require minutely recall the costs and benefits. There are a few theories that emphasize the assessment of the expenses and blessings of various liquidity ranges. Change-off theory summarizes that firms' control emphasize. To balance the agreeable liquidity to prices and advantages of holdings of money. The value of cash holdings is the low yield of these liquid properties because of liquidity top rate and tax drawbacks (Ajao & Small, 2012). Frank and Goyal (2005) said that during all the theories of alternate-off, there may be an assessment of the value and advantages of opportunity capital structure plans. The perception of price and gain increases the significance of budget have least value, reasonable benefits and easily to be had; the liquid assets. Ferreira and Vilela (2004) mentioned that the pecking order and alternate-off theories guide the cash keeping choices of the firm. The cash maintaining approach shrinks the possibilities of monetary troubles; reduces the fee of outside financing and allows the formulation of a funding plan with the aid of assembly financial obstacles. Further, coin holdings assist to respond to one-of-a-kind possibilities without totally relying on capital (Abushammala & Sulaiman, 2014).

We have done our literature review on more than 20 research papers and then write the related literature accordingly. We collected the data of 5 years of different companies from different sectors from 2017 to 2021. Secondly, we calculate the dependent and independent variables and analyze the impact of liquidity management and asset management on return on equity. Thirdly, we conclude the data of 5 years of 50 different companies. The research objective is to check the impact of liquidity management and asset management on firm performance.

### Research Question

- What is the impact of liquidity management and asset management on firm performance?

### Research Objective

The research objective is to:

- "Check the impact of liquidity management and asset management on firm performance".

### Hypothesis

H1: There is a positive impact of liquidity management on firm performance.

H2: There is a positive impact of asset management on firm performance.

### Literature Review

While researching the risk management procedures used by Islamic sets, Akhtar, Ali, and Sadaqat (2011) reported the significance of size and networking capital. In their 2011 study, Ali, Akhtar, and Ahmed examined the macroeconomic and bank-specific factors that affect the profitability of Pakistani commercial sets. The study, which used data spanning four years, discovered a significant relationship between the capital adequacy ratio, credit risk, asset organization, GDP, and the shopper price index when measured through return on assets (ROA), as well as a significant relationship between functioning efficiency, asset management, and GDP when measured through return on equity (ROE).

D. Govind Rao & P. M. Rao in 1990 conducted a study on the Indian cement industry to explore the relationship amongst working capital management and profitability. They discovered a combination of positive and negative connections between the variables related to working capital and profitability.

The connection among occupied wealth organization and profitability in Indian pharmaceutical corporations stayed also examined by Chakraborty (2008). He used a sample of 25 carefully picked businesses since the sector between 1996–1997 and 2007–2008 in his article. Employed capital and profitability an experiential study of their connection with location to a few Indian pharmaceutical companies. He noticed there were two opposing viewpoints: One was that working capital might have a negative link with profitability and that it has no bearing on enhancing the latter.

According to the second viewpoint, working capital management significantly affected profitability, and without investments in working capital, it was impossible to generate the appropriate level of sales.

### Board Structure

Amit K. Mallik, Debashish Sur, and Debdas Rakshit (2005) investigated the connection amid working capital management and profitability in the Indian medicinal industry. However, they attempt to have a serious relationship but fail. by Dr. D. Mukhopadhyay (2004) is another study.

In Indian pharmaceutical businesses, Chakraborty (2008) also watched at the connection among working capital management and profitability. In his essay "Working Capital and Profitability: An

Empirical Analysis of Their Relationship with Reference to Selected Companies in the Indian Pharmaceutical Industry," the author used a sample of 25 carefully chosen companies from the sector from 1996–1997 to 2007–2008. He noted that there were two different points of view: One was the idea that working capital and profitability might not stay positively connected and that the former had no bearing on the latter. According to the second viewpoint, managing working capital had a significant impression on profitability, and deprived of investing in working capital, it was impossible to attain the target level of sales.

Raheman and Nasar (2007) used a taster of panel facts from 94 companies listed in the KSE from (1999-2004) to examine the "impression of dissimilar measures of working capital management on net operating profitability of Pakistani firms. The results show that there is a solid negative connection among variables of working capital management and company's profitability and a positive relationship amongst FS and its profitability.

### Impact of Liquidity Management on Firm Profitability

Khalid et al. (2018) investigated the impact of working capital management on the profitability of Pakistani electrical equipment companies listed on the Karachi Stock Exchange. Cross-sectional data from the years 2007 to 2012 were used in the study. Working capital management has a favorable and significant impact on a business's profitability, according to regression analysis and normality tests.

Building upon previous research, Vuković and Jakšić (2019) conducted a study investigating the effect of working capital management on the profitability of 9,883 corporations in the food industry in Southeast Europe from 2010 to 2014. They utilized probit regression analysis and considered variables such as current liquidity, current assets to total assets, current liabilities to total assets, indebtedness, and enterprise size. The experiential consequences indicated that all independent variables, except the debt ratio, influenced profitability.

Lyroutdi and Lazaridis (2000) conducted a completely unique observe on the Greek meals business to decide the connection among the coins Conversion Cycle and traditional liquidity signs, inclusive of the contemporary Ratio and short Ratio. The effects revealed a massive tremendous affiliation among modern and traditional liquidity measures. Moreover, they discovered a tremendous hyperlink between the cash Conversion Cycle and the return on property ratio.

P. Ganguly (2001) observed a strong positive relationship between liquidity and profitability in the Indian Aluminum Producing Industry. For Pakistan's commercial banks, Ali, Akhtar, and Sadaqat (2011) examined both the monetary and non-financial risk dimensions. The study utilized linear regression models by means of an example of 28 commercial banks in Pakistan, of which 6 were fully functional Islamic banks.

Operational risk was cast-off as a non-financial risk dimension and credit danger as a financial risk dimension. The study indicated that size, gearing ratio, and liquid assets had a substantial impact on model (A), which examines financial risk. However, the study found a substantial relationship between size, the fraction of non-performing loans, and operating efficiency in model (B), which examines non-financial risk.

In a take a look at conducted by means of Nazir and Afza (2009), the researcher analyzed the effect of a competitive operating capital control policy of non-financial profitability firms indexed at Karachi inventory argument. The study tested a sample of 204 companies from 1998 to 2005 and reappearance on belonging and Tobin's q as profitability's

measure through making use of a panel statistics regression model, they observed a poor courting between the diploma of violence and corporation's profitability of their funding regulations and working capital investment.

Using a taster of 2,123 Japanese non-financial companies listed on the Tokyo Stock Exchange from 1990 to 2004, Haitham Nobanee and Maryam Al-Hajjar investigated the link between working capital management and profitability. The authors recommended that in order to increase profitability, Japanese businesses should concentrate on reducing their receivable collection period, inventory conversion period, and cash conversion cycle. Additionally, they stated that increasing the Payable Deferral Period might increase profitability, but caution should be used to prevent long-term damage to the firm's credibility and credit reputation.

The connection amongst liquidity and profitability was examined by Eljelly in 2004 using a sample of Saudi Arabian companies. The results suggested that the Cash Conversion Cycle stayed a fit for calculating a company's liquidity compared to the static Current Ratio. Furthermore, a strong negative relationship between liquidity and profitability was observed. The analysis highlighted the significant impact of company size on effectiveness.

Lazaridis and Tryfonidis (2006) studied an impact of working capital management (WCM) on the effectiveness of 131 corporations recorded in the Athens Stock Exchange from 2001 to 2004. Their research findings, obtained through correlation and regression analysis, revealed a statistically significant negative relationship between corporate profitability, specifically measured by gross operating profit, and the management of working capital, measured by the cash conversion cycle. Based on these grades, the authors recommended that directors can enhance shareholder worth effectively managing the cash change cycle and optimizing the changed workings involved.

In their article Manoj Anand and Keshav Malhotra further taxed to make a meaningful linking between the management of working capital and the productivity of the organization. For a period of three years, from 2001–2002 to 2003–2004, they used the data of 339 S&P CNX 500 non– economic firms. However, their artwork hinted at a tepid, high-quality relationship between working capital management and business success.

Javid (2014) tell us link among strolling capital control and performance of bookkeeping and marketplace assessment for SMEs listed on the Karachi stock change. The test analyzed panel records from fifty 4 SMEs over the length 2006–2010 using panel records regression evaluation. The findings indicated that signs of going for walks capital manage had a prime impact on corporation performance, but the coins net exchange cycle conversion cycle needed no impact on success.

J. P. Singh and Shishir Pandey Jr. (2007), in their article "Impact of Working Capital Management in the Profitability of Hindalco Industries Limited" experiential a management's important sound effects of Hindalco Industries working capital on the viability.

The relationship among working capital management and profitability in the USA was investigated by (Gill, Biger et al. 2010). For a three-year period between 2005 and 2007, they chose 88 companies from the New York Stock Exchange to represent their sample. As a stand-in for working capital management and as a gauge of profitability, they used the cash conversion cycle. They discovered a statistically significant positive association between the cash conversion cycle and profitability using correlation and regression analysis.

### **Impact of Assets Management on Firm Profitability**

The belongings of working capital management on profitability were examined by Karduman, Akbas, Ozsozgun, and Durer (2010) for a sample of 140 companies listed at the Istanbul Stock Conversation during a dated of 4 years, from 2005 to 2008. amount of days' worth of outstanding debt Days of inventory, in number, Number of day's a metric of working capital management was accounts payable, and a measure of cash conversion cycle and profitability was return on assets.

They discovered a statistically significant inverse link between working wealth organization measures and profitability using association and reversion analysis. Dr. Ioannis Lazaridis and MSc Dimitrios Tryfonidis conducted a study examining the statistical significance of profitability listed cash alteration firms. On the Athens Stock Exchange after 2001 to 2004.

An analysis of working capital management's impact on Indian Corporate Hospitals' profitability was done by Christopher and Kamalavalli. Using panel data analysis, they examined a sample of 14 out of 51 listed corporate hospitals in India from 1996–1997 to 2005–2006. The findings revealed a favorable correlation between the variables used to gauge profitability—Return on Investment—and the Inventory Turnover Ratio, Debtors Turnover Ratio, and the Working Capital Turnover.

Raheman et al. (2010) used a sample of balanced longitudinal data from 204 companies listed in Karachi stock exchange (KSE) from (1998-2007) to study the impact of working capital management on the profitability of Pakistani business firms. The association was tested using Pearson's correlation and longitudinal data analysis, and the study discovered a bad correlation between business performance and the CCC, NTC, and list turnover in days. According to this study, a company's profitability will rise if working capital and financing are managed well.

Alipour (2011) highlighted the direct stimulus the firm profitability on WCM. The research on Iranian listed firms and measured profitability using gross operating profit. It starts a relationship profitability and between working capital management, indicating that decreasing the gathering period and inventory turnover period could increase corporate value by releasing cash held in these assets.

Ukaegbu (2014) investigated the relationship among running investment control and profitability the use of production corporations of Egypt, Kenya, Nigeria, and South Africa. the chosen global places represented unique groups based totally on their industrial performance class supplied with the aid of manner of the United countries convention on trade and development. The look at spanned the length 2005-2009. The results confirmed a terrible dating between firm profitability and the receivable collection duration, at the same time as an relationship became placed with inventory turnover. but, the affiliation among debts payable duration and profitability changed into bad, besides for Egypt. The look at highlighted an inverse courting a number of the coin's conversion cycle and firm profitability at some point of the chosen African global places, regardless of their special industrial typologies.

Agha (2014) tested how running capital manipulate, mainly, creditor turnover, receivable turnover, current ratio, stock turnover, and current ratio, impacts return on property in corporate profitability. The outcomes proven that operating capital manipulate significantly influences company profitability. The have a look at recommended minimizing stock turnover, the money owed receivable ratio, and creditor turnover, despite the fact that liquidity did no longer have a statistically massive impact on profitability. The findings provided valuable insights for pharmaceutical corporations inside the situation of running capital control.

Rasyid (2017) investigated the effect of a destructive running money manage coverage on profitability and non-monetary corporation price within the Indonesian stock exchange. The examine blanketed 393 listed businesses in 2014. The primarily based variables had been return on assets and the corporation's fee, while the unbiased variables were a competitive investment policy and an aggressive financing coverage. Manipulate variables, at the side of the debt ratio and business enterprise size, had been moreover considered. The take a look at determined that an aggressive working capital control policy significantly advocated the employer's profitability. But it did not now have an effect on the corporation's marketplace value based totally on linear regression evaluation. The results confirmed that a competitive funding coverage had a pleasing dating with profitability, whilst a competitive financing insurance negatively affected go returned on belongings or Tobin's Q.

A thorough investigation into how company profitability affects working capital management was done by Naumoski (2019). A sample of 720 businesses from south-eastern Europe, including Northern Macedonia, Romania, Slovenia, Serbia, and Turkey, were included in the study. Various working capital management metrics, for example days receivable outstanding, inventory turnover, cash conversion cycle, and days payable outstanding, were taken into account by Naumoski (2019) and Herzegovina, Bulgaria, Montenegro, and Croatia. According to the findings, profitability was favorably impacted by a shorter cash conversion cycle and day's payable o. outstanding, whereas profitability was negatively impacted by longer days payable outstanding.

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## Methodology

### Measurement of Variables

The main variables in this research are liquidity management and asset managing as self-governing variables and firm presentation as dependent variable.

### Operationalization of Variables

Table I

Variables	Dimensions	Acronym	Operationalization	Source
Current Ratio	Liquidity Management	CR	it is calculated by =Current asset/current liability	Balance sheet
Total asset turnover		TAT	It is calculated by =sales/total assets	Balance sheet
Fixed asset turnover		FAT	It is calculated by =sales/ fixed assets	Balance sheet
Net working capital turnover	Asset Management	NWCT	It is calculated by =sales/ net working capital	Balance Sheet
Return equity on	Firm performance	ROE	It is calculated by =net income/ equity	Balance sheet

### Base line Equation

$$FP = \beta_0 I + \beta_2 LM + \beta_3 AM + \beta_4 CV + \varepsilon$$

- The FP is the dependent variables represents firm performance.
- The LM is independent variables represents liquidity management.
- The AM is also independent variable represents asset management.
- The CV represents control variables.
- $\varepsilon$  represents error term.

### Research Design

The research design we used to analyze our study is statistical technique. The method we used to analyze the results are:

**Descriptive Statistics:** A descriptive statistic is also known as summary number in the count noun sense. It is also quantitatively describing or analyzed a feature of information. Descriptive statistics is forming a noun sense; it is the method of using these statistics. Inferential statistics or

Inductive statistics is used to summarize a sample while then usage the population to represent and study the sample data.

**Matrix of Correlation:** A correlation matrix is a chart that displays correlation coefficients among different variables. It shows the correlation between two variables in each cell of the chart.

**Linear Regression:** Linear regression is a statistical technique that examines the connection between multiple variables. It entails using an independent variable to forecast the dependent variable, and the connection can be illustrated by drawing a straight line on a graph. Linear regression is frequently employed in anticipatory analysis and is a linear approach for modeling the connection between independent and dependent variables.

## Research Type

The research type is quantitative in nature.

## Data Collection

Secondary data is gathered from the site and we collect the data of 50 different companies from different sectors. We collected the data of companies from 2017 to 2021.

## Data Analysis and Discussion

### Descriptive Statistics

**Table 2**

Variable	Obs	Mean	Std. Dev.	Min	Max
Roe	250	0.12	.227	-1.21	1.21
Cr	250	1.526	1.623	0.071	1.865
C	250	.815	.736	0.000	6.179
Fat	250	5.26	11.301	0.000	162.271
Newt	250	38.456	43.885	113.5	796.139
rec_turn	250	31.155	4.754	0.000	172.056

Descriptive analysis is the analysis in which we can calculate the maximum, minimum and average values of our data. So, the analysis describes that return on equity of 50 companies are on average 0.12, the extreme rate is 1.21 and the smallest value is -1.21. The current ratio is normal is 1.526, the maximum value is 1.865 and smallest value is 0.071. The total asset turnover is on average is 0.815, the maximum value 6.179 and minimum value is 0.000. The fixed asset turnover is on average 5.26, the supreme value is 162.271 and least value is 0.000. The net working capital ratio on average is 38.456, the extreme value is 796.139 and minimum value is 113.5. The receivable turnover ratio is on average is 31.155, the extreme value is 172.056 and lowest value is 0.000.

**Table 3**

*Matrix of Correlations*

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) roe	1.000					
(2) cr	0.271	1.000				
(3) tat	0.406	0.197	1.000			
(4) fat	0.020	-0.004	0.426	1.000		
(5) newt	0.056	0.017	-0.013	0.014	1.000	
(6) rec_turn	0.039	-0.081	-0.050	-0.028	0.020	1.000

The matrix of correlation describes the relationship of two variables. The same variable relation always shows the value 1. There is no connection of return on equity with other variables. The current ratio shows the optimistic relationship with return on equity which means that the current ratio and return on equity moves in the same direction as the current ratio increases the return on equity also increases. The total asset turnover shows the positive relationship with return on equity and current ratio which tells us that as the total asset turnover increases the return on equity and current ratio also increases. The fixed asset turnover shows the positive relationship with return on equity and total asset turnover but negative relationship with current ratio which means that as the fixed asset turnover increases the current ratio decreases. The networking capital turnover shows the positive relationship with return on equity, current ratio and fixed asset ratio but the negative relationship with total asset turnover. The receivable turnover shows the positive relationship with return on equity and net working capital turnover but negative relationship with current ratio, total asset turnover and fixed asset turnover.

## Linear Regression

Table 4

Roe	Coef.	St.Err.	t-value	p value	Sig
Cr	0.026	.008	3.25	0.001	***
Tat	0.137	0.020	7.01	0.000	***
Fat	0.002	.001	-2.70	0.007	***
Newt	0.00001	.00013	1.07	0.285	
rec_turn	0.00016	.00013	1.26	0.210	
Constant	-0.0270	.02195	-1.24	0.217	
R-squared		0.234	Number of obs		250.00
F-test		<u>14.930</u>	Prob > F		0.000

\*\*\* $p < .01$ , \*\* $p < .05$ , \* $p < .1$

The linear regression shows the significance the independent variables. The significance value is 0.05. The variables having value less than 0.05 are significant the having value more than 0.05 are insignificant. So, the table of linear regression shows that the current ratio, total asset turnover and fixed asset turnover are significant having values 0.001, 0.000, 0.007 respectively which is less than 0.05. On the other hand, variables net working capital turnover and receivable turnover are insignificant having values 0.285 and 0.210 respectively which is higher than 0.05.

## Conclusion

The research topic is "impact of liquidity management and asset management on firm performance". We have done our literature review from different research papers through which we come to know how we have to conduct our thesis. We have collected our data from websites. We collect the data of 50 different listed companies in the Pakistan stock exchange which are from different sectors. Our independent variables from liquidity management are quick ratio, current ratio, cash ratio and net working capital ratio and from asset management are total asset turnover, fixed asset turnover, networking capital turnover, inventory turnover, days sales in inventory and receivable turnover. Whereas, our dependent variables are return on asset and return on equity.

As our current ratio have positive t-value and p-value is less the 0.05 and it is significant. So, H1 is correct and we accept it. As our total asset turnover, net working capital turnover and receivable turnover have positive t-value and their p-value is significant. So, H2 is also correct and we accept it.

On average, the research shows that there come ups and downs in a company economy. Sometimes the company is in the best position but on the other hand there comes such crises which destroys the company's financial economy. The variables we discussed in our thesis have an impact on firm performance. Both the liquidity management and asset management positively affect the firm's performance.

According to the given results both the hypothesis H1 and H2 are correct and they are accepted. There is the impact of independent variables over firm performance. Both the liquidity management and asset management positively affect the firm's performance.

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## Appendix I

Table 5

S no	Company Name
1	Dost Steels Limited
2	Aisha Steel Mills Limited
3	FFC Jordan
4	Noon Pakistan Limited
5	National Foods Limited
6	Bal.Glass
7	Shabbir Tiles
8	Feroze I 888 Mills Limited
9	Amtex Limited
10	Colony Textile Mills Limited
11	Kohinoor Spinning Mills Limited
12	Nishat Mills Limited
13	Hum Network Limited
14	loads limited
15	TPL Corp Limited
16	Bestway Cement Limited
17	Maple Leaf Cement Factory Limited
18	Kohat Cement Company Limited
19	Gharibwal Cement Limited
20	Lucky Cement Limited
21	Flying Cement Ltd.
22	Cherat Cement Company Limited
23	Al-Abbas Cement Industries Limited
24	Pioneer Cement Limited
25	D.G. Khan Cement Company Limited
26	Pakland Cement Limited
27	Lotte Pakistan PTA Limited
28	Ghani Gases Limited
29	International Steels Limited
30	Amreli Steels Limited
31	Mughal Iron & Steel Industries Limited
32	Merit Packaging Limited
33	Century Paper & Board Mills Limited
34	Searle Pak
35	Pakistan State Oil Company Limited
36	Oil & Gas Development Company Limited
37	Pakistan Petroleum Limited
38	Pakistan Oilfields Limited
39	Synthetic Products Enterprises Limited
40	Fauji Cement
41	Dandot Cement Company Limited
42	Pioneer Cement Limited
43	Engro Polymer & Chemicals Limited
44	Fauji Fert.
45	Ghani Glass Limited
46	Ghani Global Glass Limited
47	Siddiqsons Tin Plate Limited
48	Nishat Power Limited
49	Altern Energy Limited
50	Byco Petroleum Pakistan Limited