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A NEXUS BETWEEN FINANCIAL LEVERAGE AND PERFORMANCE OF TEXTILE SECTOR OF PAKISTAN

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ABSTRACT
This study investigates the impact of FL on FP of textile sector (spinning, composite and weaving) of Pakistan considering the micro panel data of 56 firms over the period of 2011-2016. The study used FL as predictor measured by Debt to Equity Ratio (DER), Interest Coverage Ratio (ICR) and Total Debt to Total Assets Ratio (TDTAR) while FP as dependent variable measured by Earnings per Share (EPS), Net Profit Margin (NPM) and Return on Capital Employed (ROCE). Assets Tangibility (AT), Growth (G), Size (S) and Age (A) used as control variable. Based on the recommendations of Hausman test fixed and random effect in utilized. Outcomes of the study reveal mix results in selected textile sectors FP. In spinning sector ICR positively relate with EPS, NPM and ROCE. DER positively relates with NPM and negatively relate with EPS and ROCE.TDTAR negatively relate with EPS, NPM and positively relate with ROCE. In composite sector ICR negatively pertain with EPS, NPM and positively with ROCE. DER positively pertains with NPM and negatively with EPS and ROCE. TDTAR negatively relate with EPS, NPM and positively with ROCE. In weaving sector ICR show negative relationship with EPS, NPM and positive with ROCE. DER reveals negative relationship with EPS, NPM and positive with ROCE. TDTAR show positive relationship with EPPS, NPM and ROCE.
KEYWORDS: Financial Leverage, Textile Firms, Financial Performance

1. INTRODUCTION

Financial decision is a basic and extremely essential function as compare to the other corporate decision making functions, financial managers take a decision when, how and where to get finance for firm's investment needs (Zhao & Wijewardana, 2012). Firm choices the mixture of Equity and debt for investment (Adenugba et al. 2016). Financing decision show how firm's capital expenditures are finance and Capital structure in the firm's source of funds refers to the combination of equity and debt. Nyamita, (2014) revealed that financial decision is very important for corporation and amount of debt financing has notable implications for organization operations and for corporations. Financial managers should take care while making financial decision because appropriate debt utilization can make better corporate performance and it is also causes its failure. Gitman, (2009) explained that financial decision determines the firm's investment activities using leveraged fund or equity and type of financing those firms used and mixture of equity and debt.

FL decisions involve finance firms activities as general operations or investment through combination of debt and equity. FL gives way advantage of increasing return on investments and tax reduction on borrowing (Gill & Mathur, 2011). Leverage considered as a fixed financial expense and responsibility to pay interest on borrowing funds. Capital structure in firm's FL measured more on the debt utilization (Adenugba, Ige & Kesinro, 2016). It also referred as a financial approach that utilizes fixed cost debt instruments for maximizing the return on investment (Al-Otaibi, 2013). According to Abubakar (2015), FL refers to as a loan taken with a clear intention from financial institutions for the purpose of increasing profit from that investment and charged cost of interest on borrowed funds. It explains how organizations finance their assets through debt and equity to ascertain the relation between borrowed and owner's

funds to form the capital structure (Rehman, 2013). Enekwe et al, (2014) firms use FL for increasing return on fixed charges funds instead of their cost. In others word for increasing operating profit and taxes FL utilize the funds of third party (Barakat, 2014).Studies on leverage and firm's performance conducted and failed to find an appropriate best accord for firms in any circumstances (Al-Tally, 2013). According to Brealey and Myers (1991) FL is consider as one of the unsolved problem out of 10 in corporate finance. Capital structure theories as pecking order theory, trade-off theory and agency theories were initially developed to describe capital structure and characteristics of large firms (Daskalakis and Thanou, 2010). Extant of studies probed out the impact of FL on FP (Gweji and Karanja, 2014; Mwangi et al, 2014; Laurent, 2002) and also in Pakistan (Tauseef et al, 2015; Rabbani et al, 2015; Rehman, 2013) but there is a scarcity of findings in textile sector of Pakistan.

The existing literature on capital structure and firm performance relationship is huge and refer to developed countries, though the results show incompatible and ambiguous yield (Chathoth and Olsen, 2007; Margaritis and Psillaki, 2010; Berger and Bonaccorsi di Patti, 2006; Jermias, 2008). Existing literature on capital structure and firm performance show that it greatly deals with developed countries (Bradley, Jarrel &Kim, 1980). On the other hand experiential research has attained a lesser amount of interest in developing countries to recognize the impact of capital structure on performance (Lin and Chang, 2011; Abor, 2007; Krishnan and Moyer, 1997; Kyerboah-Coleman, 2007).According to several researchers (Okako et al, 2015; Koroba, 2014 and Gharaibeh, 2015) developing countries market face a number of problems namely incomplete information between investors and companies, inefficient markets and market irregularities. That's why results of developed market studies cannot implement in developing countries. In developing countries mix results were investigate, some researcher found positive relationship (Al Soubaey, 2012; Margaritis and Psillaki, 2010; Nirajini and Priya, 2013), some hold up negative relationship (Zeitun and Tian, 2007; Matarirano, 2007; Ogebe et al, 2013; Memon et al, 2011 and Alnajar, 2013) and rest of the group found no significant relationship (Tamimi and Obaidat, 2013; Alghdaei and Ghasemi, 2012). Many researchers have evaluated the performance of various sectors by using financial ratios and profitability in Pakistan (Nazir & Afza, 2009; Khan 2012). Rehman, (2013) selected NPM, EPS, ROE, ROA, sales and growth as FP proxies whereas FL was measured by Debt to Equity Ratio (DER). Tufa, (2016) utilized Return on Capital Employed (ROCE) to gauge profitability while Debt to Equity Ratio (DER), ICR, debt to equity, LDCR and SDTD proxies used to gauge capital structure. Memon et al, (2011) to find the impact of firm's capital structure on FP. They used Debt to Equity ratio (DER), Growth rate (GR), Tangibility, Size, Annual tax and firms risk to measure capital structure and Return on Assets (ROA) as performance measurer in textile sector and concluded that performance of textile sector negatively affected due to the high amount of assets as fixed assets.

Little empirically studies investigate the role of FL and FP textile sector. Hence this study intends to investigate this underlying relation to bridge up this gap. Keeping in view, the study selects the textile sector e.g. spinning, weaving and composite and data was collected over the period of 2011-2016 on FL and FP from consolidated reports. FL is measured by earnings per Share (EPS), net profit margin (NPM), return on capital employed (ROCE) whereas FL is evaluated by Debt to equity ratio (DER), Interest coverage ratio (ICR) and Total Debt to Total Assets (TDTA) and study uses the firm age (FA), Firm Size (FS), assets tangibility (AT) and growth as control variables.

2. LITERATURE REVIEW

Rehman, (2013) evaluated the effect of FL on FP in Pakistan on 35 listed sugar companies over the period of 2006-2011.The study considers ROE, ROA, EPS, sales, growth and met profit margin (NPM) taken as proxies of FP whereas to gauge the FL as DER is utilized as measuring proxy. The results of suggest that FL has negative association with NPM, EPS and ROE while FL positively pertain with sales growth and ROA. Enekwe et al, (2014) in Nigeria investigated the impact of FL on FP of pharmaceutical companies. The study used debt to equity ratio, debt ratio and interest coverage ratio as a proxy of FL whereas FP is evaluated by ROA. The findings of the study found a negative relationship of ROA with debt to equity ratio and debt ratio, however interest coverage (IC) show positive relation with profitability while debt ratio, debt to equity ratio and ICR has inconsequential impact on profitability of Nigeria pharmaceutical companies.Fosu, (2013) carried out study to determine the relationship between firms performance and capital structure in South Africa. Panel data of 257 firms by using (ICB) Industrial Classification Benchmark divided into eight different industries over the period of 1998-2009 of South African firms. ROA is used to measure firms' performance and various independent variables used to measure capital structure to realize capital structure impact on performance and how much connection between them depends on product market competition. The study employed Boone Indicator and a novel measure of competition to find the connection among performance and leverage. The study postulates positive and significant relationship among firm performance and FL. Akhtar et al, (2012) conducted a paper in power and energy sector to investigate the interconnection among FP and FL in Pakistan. Gearing Ratio (GR) and Debt Ratio (DR) used as a proxy of FL while (ROA), Dividend cover ratio (DCR), NPM,

ROE, dividend ratio to equity (DRE), (EPSAT), (EPSBT), (EPSBTG) and sales growth (SG) ratios measures performance of the selected sector. The findings of the study suggest that FP and FL positively interconnect with each other.

Patel, (2014) evaluated impact of FL on Sabar Dairy Profitability in India. The study collected the data of firm over the period of 1986 to 2014. To measure performance of firms, this study used ROE, EPS (ROCE) and (ROA) while FL is measured through degree of operating leverage (OL), degree of FL (FL) and degree of combined leverage (CL) utilized as independent variables. The findings of study shows that OL, FL and CL positive connection with ROE, (ROCE) and EPS. Moreover, OL and CL has positive connection with ROA and FL has inversely connected with ROA. Birru, (2016) investigated the effect of capital structure on FP of Banks in Ethiopia over the period of 2011 to 2015. The study used the multiple regression for data analysis. The outcomes of study revealed that ROA is negatively and significantly connected with tangibility, Size and debt to equity ratio (DER). Rabbani et al, (2015) conducted a research to investigate the FL effect on firm's performance in Pakistan. The study used the secondary data of 10 selected companies from cement sector and service sector as a sample over the period of 2006 to 2012, FL (FL) was used as dependent variable and size, profitability (ROA) and Growth of the firms (FG) selected as independent variables. The outcome of correlation indicates that in service sector growth of the firms (FG) and profitability (ROA) has no effect on FL (FL) although FL has a positive connection with size of the firm (FS). In manufacturing sector growth of the firm (FG) and Firm Size (FS) has no effect on FL (FL) although FL has negative connection with profitability (ROA).

Borhan et al, (2014) found debt to equity ratio and operating profit margin have negative connection with performance of the companies although debt ratio (DR), quick ratio (QR), net profit margin (NPM) and current ratio (CR) have positive connection with performance of the selected firms. Three ratios out of six selected ratios, Debt ratio (DR), current ratio and net profit margin (NPM) put the maximum impact on performance of the firms. Mule and Mukras, (2015) scrutinized the association between FP and FL of firms in Kenya over the period of 2007 to 2011. The outcomes of the study show that FL negatively and significantly affects the performance gauged through Tobin Q and ROA further the results show that performance calculated through ROE negatively and insignificantly influence by FL. Akinmulegun, (2012) examined an effect of FL on corporate performance in Nigeria. The study used Vector Auto-Regression (VAR) technique for data analysis. Nets assets per share (NAPS) and Earning per share (EPS) as performance measurer selected as dependent variable while FL used independent variable. Results of the paper revealed that leverage shocks significantly exert on performance of the firms while net assets per share (NAPS) and EPS less rely on leverage while EPS through leverage shocks indirectly affect net assets per share (NAPS) of the firms. Evgeny, (2015) studied FL impact on performance in Russia. To gauge performance Operating margin (OM), Return on Equity and Return on Assets proxies were selected although FL of the firm measured through debt to total assets ratio (DAR). The study used alternative estimating approach and time cluster approach. The findings of the study suggest that there exists a negative relationship among performance and leverage in Russian firms and it is might possible due to high growth potential, inefficient control of market and high interest rate. The outcomes of the study support pecking order theory and neglect free-cash-flow theories and trade off theory.

3. THEORETICAL FRAMEWORK

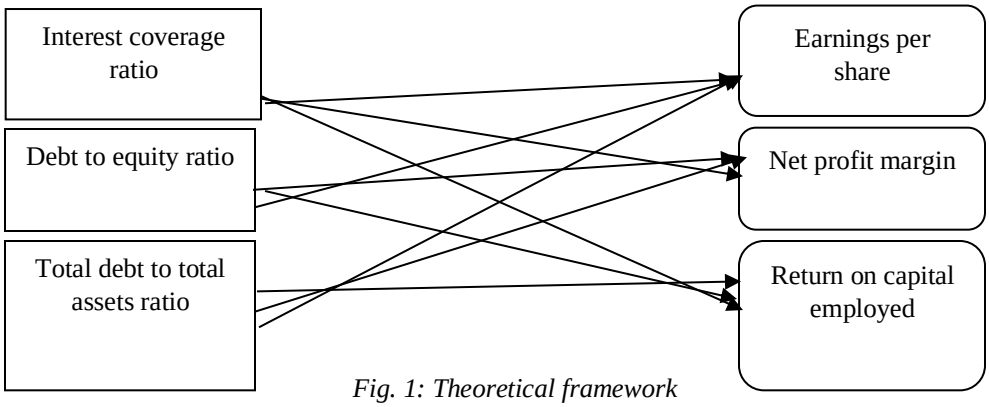

Fig. 1: Theoretical framework
Control variable: Assets tangibility, Growth, Age and Size

4. METHODOLOGY

4.1 Data collection

This study utilized micro panel data for evaluating relationship between FL and FP through selecting suitable proxies. Listed 56 Textile firms at Pakistan Stock Exchange are selected as a sample on the bases of easily available data, which includes 32 spinning, 19 composite and 5 weaving firms. The source of data collection is consolidated annual audited annual reports over the period of 2011 to 2016. Random effect model is applied for evaluating the empirical relationship between FL indicators (DER, ICR and TDTAR) and FP indicators (EPS, ROCE and NPM). Random effect model selection is used based on justifications of Hausman test.

4.2 Findings of Textile Spinning Firms

Model 1: $EPS_{it}=\alpha_{i+}\beta_1 DER_{it}+\beta_2 ICR_{it}+\beta_3 TDTA_{it}+\mu_{it}+\varepsilon_{it}$

Table 1: Results of Model 1

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Earnings per share (EPS)	.1123956	-.1366471	-21.14579	.068334	.0667156	1.006628	-.0241703
T-Statistics	1.08	-0.16	-1.21	0.08	0.31	1.16	-0.20
Sig	0.279	0.871	0.228	0.933	0.760	0.245	0.841
R^2	0.0075						
Hausman (Prob.)	0.7000>0.05 (reject null hypothesis)						

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 1 shows the empirical results of model 1for FL (ICR, DER and TDTAR) to demonstrate the relationship with FP indicator (EPS). The outcomes of table 1 postulates that EPS has negative and insignificant relationship with DER (β=-.1366471) and TDTAR (β=-21.14579) at (p>0.10) respectively and positively associated with ICR (β=.1123956). R^2 demonstrates that 0.75% variation occurs in EPS due to predictors (ICR, DER and TDTAR). However, Hausman test suggests that value is greater than 0.05 hence random effect model is suitable and appropriate for model 1 of textile spinning firms.

Model 2: $NPM_{it}=\alpha_{i+}\beta_1 DER_{it}+\beta_2 ICR_{it}+\beta_3 TDTA_{it}+\mu_{it}+\varepsilon_{it}$

Table 2: Results of Model 2

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Net profit margin (NPM)	.0001792	.0003746	-.0111947	-.0009511	-.0023607	.0013157	-.0003191
T-Statistics	0.29	0.07	-0.23	-0.18	-1.85	0.69	-0.41
Sig	0.772	0.942	0.815	0.855	0.064	0.488	0.679
R^2	0.0030						
(Prob.)	0.0684 >0.05 (reject null hypothesis)						

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 2 presents the empirical results of model 2 for FL (ICR, DER and TDTAR) to examine the relationship with FP indicator (NPM). Results show that ICR and DER demonstrate a very week and insignificant relationship with NPM (β=.0001792) and (β=.0003746) respectively and however, TDTA negatively (β=-.0111947) influence the performance of spinning firms. The value of R^2 reveals that 0.3% comes due to predictors whereas Hausman test is greater than 0.05% which suggests that random effect model is best fitted model.

Model 3: $ROCE_{it}=\alpha_{i+}\beta_1 DER_{it}+\beta_2 ICR_{it}+\beta_3\ TDTA_{it}+\mu_{it}+\varepsilon_{it}$

Table 3: Results of Model 3

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Return on capital employed (ROCE)	.1029746	-.0038664	1.672629	.0949173	-.018654	-.0217078	-.0389147
T-Statistics	4.55	-0.02	0.88	0.50	-0.40	-0.29	-1.39
Sig	0.000	0.984	0.378	0.614	0.690	0.774 0	0.163
R^2	0.1042						
Hausman (Prob.)	0.2402>0.05	(Reject null hypothesis)					

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 3 presents the empirical results of model 3 for FL (ICR, DER and TDTAR) to examine the relationship with FP indicator (ROCE).Findings of this study found that ICR positive (β=.1029746) and significantly ($p<0.01$) influence performance of firms in terms of ROCE whereas DER (β=-.0038664) negative and insignificantly related with ROCE. Value of R^2 shows that 10% comes through due to predictors (ICR, DER and TDTAR). Hausman test reveals that random effect model is best fitted.

4.3 Findings of Textile Composite Firms

Model 4: $EPS_{it}=\alpha_{i+}\beta_1 DER_{it}+\beta_2 ICR_{it}+\beta_3\ TDTA_{it}+\mu_{it}+\varepsilon_{it}$

Table 4: Results of Model 4

Dependent variable	Predictors						
	Interest coverage ratio (ICR)	Debt to Equity ratio (DER)	Total debt / Total assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Earnings per share (EPS)	-.2315152	-.4475795	-.1195778	1.01321	.6031803	.2212933	1.127317
T-Statistics	-0.94	-2.74	-0.03	0.15	3.04	0.54	0.70
Sig	0.348	0.006	0.978	0.879	0.002	0.592	0.484
R^2	0.1235						
Hausman (Prob.)	0.2326>0.05	(Reject null hypothesis)					

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 4 presents the empirical results of model 4 for FL (ICR, DER and TDTAR) to examine the relationship with FP indicator (EPS). Results of table 4 postulate that ICR, DER and TDTAR negatively influence the performance of composite firms. R^2 shows that 12% variability occur in EPS due to ICR, DER and TDTAR. Hausman test reveals that random effect model is more suitable to explain the relationship among variables.

Model 5: $NPM_{it}=\alpha_{i+}\beta_1 DER_{it}+\beta_2 ICR_{it}+\beta_3\ TDTA_{it}+\mu_{it}$

Table 5: Results of Model 5

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Net profit margin (NPM)	-.0024257	.0004716	-.0475539	.046176	.0120794	.0568148	.1062827
T-Statistics	-0.33	0.09	-0.23	0.23	2.11	1.39	2.15
Sig	0.742	0.932	0.816	0.816	0.038	0.167	0.034
R^2	0.1052						
F-Statistics	1.48						
Prob. (F-Statistics)	0.1855						
Hausman (Prob.)	0.0005						

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 5 reveals the empirical results of model 5 to assess the impact of FL (ICR, DER and TDTAR) FP indicator (EPS). Results of table 5 state that DER is positively influence the performance. But this relation is statistically insignificant and weak. However, ICR and TDTAR negatively influence the performance of composite firms. The value of R^2 shows that 10.52% variability occurs in NPM due to predictors. Hausman test reveals that fixed effect model is more suitable as p<0.05.

Model 6

$$\mathrm{ROCE}_{it}=\alpha_{i+}\beta_1\mathrm{DER}_{it}+\beta_2\mathrm{ICR}_{it}+\beta_3\,\mathrm{TDTA}_{it}+\mu_{it}$$

Table 6: Results of Model 6

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Return on Capital Employed (ROCE)	.1717741	-.0160322	1.50027	-.2294873	.0045509	-.37031	.5280934
T-Statistics	1.83	-0.23	0.57	-0.09	0.06	-0.71	0.84
Sig	0.071	0.821	0.567	0.928	0.951	0.480	0.405
R^2	0.0648						
F-Statistics	0.87						
Prob. (F-Statistics)	0.5328						
Hausman (Prob).	0.0126<0.05 (accept null hypothesis)						

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 6 presents the empirical results of model 6 to examine the relationship of FL (ICR, DER and TDTAR) with FP (ROCC). Results of table 6 postulate that ICR positively and significantly influence the performance of firms whereas TDTAR negatively influence the performance. The value of R^2 states that 6.4% variation occurs due to predictors. Hausman test reveals that random effect model is more suitable model as p>0.05.

4.4 Findings of Textile Weaving Firms

Model 7: $\mathrm{EPS}_{it}=\alpha_{i+}\beta_1\mathrm{DER}_{it}+\beta_2\mathrm{ICR}_{it}+\beta_3\,\mathrm{TDTA}_{it}+\mu_{it}+\varepsilon_{it}$

Table 7: Results of model 7

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Earnings per share (EPS)	-.2895978	-1.701191	.8520263	-20.03015	.0726576	-.2305645	-3.131305
T-Statistics	-0.39	-1.66	0.56	-1.33	0.35	-1.45	-1.52
Sig	0.695	0.097	0.576	0.182	0.730	0.147	0.129
R^2	0.1782						
Hausman (Prob.)	0.7000>0.05 (reject null hypothesis)						

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 7 presents the empirical results of model 7 to examine the relationship of FL (ICR, DER and TDTAR) with FP (EPS). Results of table 7 explain that TDTA positively influence the performance (EPS) of firms whereas ICR and DER negatively influence the performance. The value of R^2 states that 17.8% variation occurs due to predictors. Hausman test reveals that random effect model is more suitable model as p>0.05.

Model 8: $\mathrm{NPM}_{it}=\alpha_{i+}\beta_1\mathrm{DER}_{it}+\beta_2\mathrm{ICR}_{it}+\beta_3\ \mathrm{TDTA}_{it}+\mu_{it}+\varepsilon_{it}$

Table 8: Results of model 8

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Net profit margin (NPM)	-.001398	-.0062956	.0380936	-.1841227	-.0023318	-.0007277	-.053116
T-Statistics	-0.06	-0.18	0.73	-0.36	-0.32	-0.13	-0.75
Sig	0.956	0.858	0.466	0.721	0.746	0.746	0.453
R^2	0.0728						
Hausman (Prob.)	0.0684>0.05	(reject null hypothesis)					

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 8 reveals the empirical results of model 8 to examine the relationship of FL (ICR, DER and TDTAR) with FP (NPM). Results of table 8 explain that TDTA positively influence the performance (NPM) of firms whereas ICR and DER negatively influence the performance. The value of R^2 states that 7.3% variation occurs due to predictors. Hausman test reveals that random effect model is more suitable model as p>0.05.

Model 9: $\mathrm{ROCE}_{it}=\alpha_{i+}\beta_1\mathrm{DER}_{it}+\beta_2\mathrm{ICR}_{it}+\beta_3\ \mathrm{TDTA}_{it}+\mu_{it}+\varepsilon_{it}$

Table 9: Results of model 9

Dependent variable	Predictors						
	Interest Coverage Ratio (ICR)	Debt to Equity Ratio (DER)	Total debt / Total Assets(TDTA)	Assets Tangibility (AT)	Growth	Age	Size
Return on capital employed (ROCE)	.0229664	.0050292	.0352998	-.6977555	.0001728	-.0046466	-.0789403
T-Statistics	2.19	0.35	1.64	-3.28	0.06	-2.07	-2.70
Sig	0.028	0.728	0.102	0.001	0.954	0.039	0.007
R^2	0.5593						
Hausman (Prob.)	0.2402>0.05 (reject null hypothesis)						

, ** and * represents the significance level at 1%, 5% and 10% respectively*

Table 9 reveals the empirical results of model 9 to examine the relationship of FL (ICR, DER and TDTAR) with FP (ROCC). Results of table 8 explain that ICR, DER and TDTA positively influence the performance (ROCC) of firms whereas ICR significantly influence p<0.05 the performance. The value of R^2 states that 55.93 % variation occurs due to predictors. Hausman test reveals that random effect model is more suitable model as p>0.05.

5. DISCUSSION AND CONCLUSION

Table 1 presents the empirical results of model 1 of textile spinning firms. Outcomes derived from model 1 reveal that ICR positively whereas the DER and TDTA negatively influence the profitability of firms in terms of EPS. These findings are consistent with the notation of (Nabeel and Hussian, 2017; Rehman, 2013). Table 2 presents the empirical results of model 2 of textile spinning firms. Findings derived from model 2 reveal that ICR and DER positively influence the NPM whereas TDTA negatively influence the performance of spinning firms which are in align with the findings of (Memon et al, 2011; Borhan et al, 2014; Majumdar and Chhibber 1999; Eriotis et al,2002). Table 3 presents the empirical results of model 3 of textile spinning firms. Findings of study exhibit ICR and DER positively influence the ROCE whereas TDTA negatively influence the performance of spinning firms and consistent with the notation of (Tufa, 2016; Rajkumar, 2014; Uremandu, 2012).

Table 4 presents the empirical results of model 4 of composite textile firms. Outcomes derived from model 4 reveal that ICR, DER and TDTA negatively influence the profitability of firms in terms of EPS. These findings are consistent with the notation of (Singh, 2013; Rehman, 2013; Ngobo and Capiez, 2004). Table 5 presents the empirical results of model 5. Findings derived from model 5 reveal that ICR and TDTAR inversely influence the NPM whereas DER positively influence the performance of composite firms which are in align with the findings of (Kebewar, 2012; Borhan et al, 2014; Majumdar and Chhibber 1999; Eriotis et al,2002). Table 6 disclose the empirical results of model 6. Findings of study exhibit ICR and TDTAR positively influence the ROCE whereas DER negatively influence the performance of composite firms (Tufa, 2016; Rajkumar, 2014; Inunjariya, 2015; Uremandu, 2012). Table 7 presents the empirical results of model 7 of waving firms. Outcomes derived from model 7 reveal that ICR and DER negatively but TDTAR positively influence the profitability of firms in terms of EPS. These findings are consistent with the notation of (Zeitun and Tian,2007; Rehman, 2013; Baum et al,2007). Table 8 demonstrates the empirical results of model 8. Findings derived from model 8 reveal that ICR and DER negatively but TDTAR positively influence the performance of firms in terms of NPM which are in align with the findings of (Alnajar, 2013; Berger and Bonaccorsi, 2006; Borhan et al, 2014). Table 9 unveils the empirical results of model 9. Findings of study exhibit ICR, DER and TDTAR positively boost the FP of firms in terms of ROCE (Knekwe, 2015; Inam and Mir 2014; Margaritis and Psillaki 2010).

6. IMPLICATIONS AND FUTURE DIRECTIONS

The study examined 56 firms from textile sector including spinning, composite and weaving firms listed at Pakistan Stock Exchange over the period of 2011-2016. Based on the findings of the study, it is found FL is high which negatively influence the performance of textile sector of Pakistan. The results of study suggest that there is dire need to use optimally fixed operating cost of firms in order to increase the FP. This study also recommends that firms needs to ascertain the optimal level of leverage or trade off in order avoid the bankruptcy and to earn adequate take advantages. Consistent with the work of Modigliani and Miller (1958), the study suggests that firms need to focus on level of leverage risk disregarding the tax advantages. Future studies can be incorporated by increase the number variables of leverage and profitability e.g. sales growth because these are closer to business operations.

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