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Uncovering the Secrets of Financial Success in Pakistan's Paper and Board Industry

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ABSTRACT
The impact of Quick ratio (QR), Asset Turnover (ATO), Net Income Margin (NTM) and Financial Cost (FC) on ROA (Return on Asset) and ROE (Return on equity) is examined by taking firms from paper and board sector listed in PSX (Pakistan Stock Exchange). The purpose of this research is to analyze what the impact may significantly occur between firm specific variables (QR, ATO, NTM and FC) including macro-economic variables (FC) on dependent variables (ROA AND ROE) respectively. Secondary data source is used in this financial study from the time frame of 2013 till 2017 which was extracted from PSX (Pakistan Stock Exchange) website from the annual reports published by the paper and board firms. For the purpose of this study "panel least square" was used. The data collected was pooled into E-Views and panel least square test to be run to study out the association between Performances of firms and all independent variable. The resultant output is revealing that Net Income Margin (NIM) and Asset Turnover (ATO) have significant influence on Return on Assets (ROA) and Return on Assets (ROE) individually. Specifically, paper sector can monitored their annual number of NIM and ATO which has a significant impact on ROA and ROE and the shareholder can make feasibility before financing into paper sector.

Keywords: Return on Assets, Return on Equity, Financial performance, Paper and Board Firms, Pakistan stock exchange

I. INTRODUCTION

Industries in a country plays a core role in the economic development as it steadily elevating it, making favorable changes in the economy, distinctly in the utilization of resources, function in material production, generating income which may rise the purchasing power of individual, decreasing overall unemployment ratio, and changes the behavioral structure of society. Specifically, Paper industry have an electrifying role in any developed country which is now attracted several scholars, institutions which deals in business management, and researchers to conduct diversified studies in this area. This study is a small endeavor to identify the financial performance determinants of paper and board firms listed in Pakistan.

Competitive edge is dictated by the viability and effectiveness [1]. Firm performance is the estimation of what had been accomplished which indicates good or bad conditions for certain time frame. The reason for measuring the performance is to get the data identifies with stream of stores, and the utilization of the reserves. In result, the output can motivate the financial heads to make the best decisions [2]. Concurrently, financial ratios fundamentally anticipating firm failure which are higher in debt leverage, less gainful, and greater liquidity stressed [3]. In this study, rationalisms is used to actuate the position of the firm as where the firm in the competitive market financially lies. In uniformity, the financial information from the annual reports of different paper and board firms will provide a durable compatibility between different firms.

In previous studies, various researches conducted on the measurement of financial performance of different firms and very few researches examine the financial aspect specifically of the paper industry only taking consideration of variables which are firm specific namely, "operational efficiency, asset tangibility, cost to revenue ratio[4,5,6].

This investigation is one of which checked the connection between factor through money related proportion analysis. In addition, this research consist of independent variables which are not only firm specific but also dealing with in macro-economic i.e. impact of financial cost on ROA and ROE. This research will help the different paper and board firms listed in Pakistan to examine the determinants which are both macro-economic and firm specific impact on financial performance, and thus, after applying some reasonable measures, they have their growth in sales, with marginal profit [7].

Practically, it is a difficult task to examine the financial performancefactors of any firm. Moreover, it's incomprehensible that every sector of an industry has the similar determinants since they contrast by their activities and characters. The aggressiveness of a company and its execution made a decision by evaluating the significant bonding with its associates and against the best practice [8].The objective of this research is to analyze firm specific variables namely, "Quick ratio, Asset Turnover, Net Income Margin"and macro-economic variable namely, "Financial Cost impact on ROA (Return on Asset) and ROE (Return on Equity) individually with its internal determinant factors over the period of 2013-2017in Pakistan Stock Exchange listed firms.

The Paper has an essential social task to carry out for the nation. Utilization of it is considered as a list of social development.The key targets of the government is decreasethe overall percentage of illiteracy, taking precautionary measures for the fulfillment of primary education for the children are more likewise related to paper industry. The paper and board firms are contributing toward necessities and attention which animate modern development of the nation.This research is gone for looking at what proportion what proportions it can decide the budgetary execution which will be useful for the firm'smanagement to take investment decisions and strength of their intrinsic value. It would also enable shareholders, investors and investment analysts to identify the determinants of corporate performance. It also helps the academicians and researchers to develop new ideas for future study. So, a study on paper and board firms is quite inevitable.

II. LITERATURE REVIEW

At the point when the ongoing writing on assurance of elements influencing benefit in profitability of corporate organizations is inspected, it is seen that the components impacting gainfulness are primarily characterized into three gatherings: firm particular and macroeconomic.

[9] analyzed the financial performance through the significance of owners' equity structure by taking 180 manufacturing firms listed on (BSX) Borsa Stock Exchange Istanbul, Turkey from 2004 to 2013 period. He had variables which are dependent that is ROA and ROE, and at last, the output revealed that the debt which is more than a yearis inversely proportional to ROA, and the ratios which were calculated by ROE were insignificant on the money oriented performance in manufacturing firms.

[2] examined the component affected mostly on financial performance of JIC (Jordan Insurance Co.), and the analytical output of time frame from 2002-2007 was extracted from the Amman Stock Exchange of only 25 insurance firms. Experimental results interpret that the variable namely, management competence index size, leverage, and liquidity hasan impact on the financial performance measured by Jordanian Insurance firms.

[7]conducted research to deal withthe money oriented factors of paper product firms in India considering 7 vitalvariables namely, "Financial Profitability, Operational Efficiency,Current Asset efficiency, Fixed Asset and LiquidityCapital Structure Position" during the period from 2000/01(YY/MM) to 2008/09 (YY/MM). When revealing the results, the researcher conclude that current assets of the companies were efficiently utilized, low cash feedback in terms of dividend, not favor the stakeholders whichmustbemonitored in order to motivate the investors in investing activities.

[10]analyzed owners' equity structure from which an individual firm can boost its money oriented performance in Nigeria. Secondary data was extracted from the yearly reports of 10 companies in between the year of 2006 till 2010. Panel Least Squares Method was being used for evaluating results; it revealed that ROA has no correlation with the variables namely, "Firms Age, Firm Size, and Asset Turnover" and negative correlation between Asset Tangibility and ROA as a measure of money oriented performance(Taiwo, 2012).

[11] Ratio analysis methodology used for North American pulp and paper firms from the period 1990 till 2009. They expressed that the firms which have low financial performance were less profitable, more chances to bankrupt and huge debt leverage. Empirically, it was judged that when any firm dissolves, shareholders may have to face the loss of (37%).

[12] examined the relationship between management in working capital and profitability for the 147 listed companies on Tehran stock exchange. Five year data collected from 2005 till 2009 which was used to interpret the initial

hypothesis. They monitored the relationship of different variables namely, “CCC (Cash Conversion Cycle), Current Asset to Total Asset Ratio, Current Ratio, and Current Liabilities to Total Asset Ratio and Debt to Total Asset Ratio” on ROA and ROA. Descriptive data analysis i.e. Pearson correlation are used to test the findings. The experimental output indicates that there is a negative relationship is between cash conversion cycle and ROA and cash conversion cycle and ROE. However, the relationship between current ratio and ROE is statically insignificant(Alavinasab & Davoudi, 2013).

[13]evaluated yearly net profit of selected cement firms in India through financial ratio analysis and descriptive analytical tools. Researcher uses profitability ratios and liquidity ratios to investigate the impact on firm’s profitabilit.

[14]made an attempt to calculate the correlation between liquidity management and profitability of the firmthrough the selection of manufacturing firm listed in Nigerian Stock Exchange. The findings show that CCC (Cash Conversion Cycle), Management of Cash Flows, and Credit Policies has animpact on profitability of the firms. The result interpret that they can rise profitability quantitatively by adopting rational policies which may favor the firm in fund inflow from outsiders and executing the altered policies which may allow them to have a short cycle of cash conversion and efficient management of cash flow.

[15]examined the correlation between the efficiency of management and profitability of the firm. Thirteen firms of specific industry sector of auto-manufacturing companies were selected listed on the Bombay Stock Exchange. For the efficient output, correlation test (Pearson Coefficient)run in SPSS software to study the pattern of the variables including (GPR) Gross Profit Ratio and Assets Turnover Ratio. The mean idea of this research is that profitability and Efficient Management are positively correlated with each other.

[16]analyze the performance of 14 manufacturing co. in Pakistan andinterpreted the results by usingfinancial ratio analysis method. ENGRO firm, the largest company by total assets over three years in 2006, 2007, 2008, was spending more and making low revenue by which they have low number of PBT (Profit before tax) and ROA (Return on Assets) than the other different 13 companies: FCC being very next to ENGRO, second largest company by total assets, it shows high number in revenues, high PBT and ROA during the its previous five year period. On the contrary, 4^{th}largest firm, NRL by total assets, shows high number in revenue in its previous five years but low amount of expenditures in 2010 comparatively to other 13 listed firms but its showing low number in PBT and ROA during the invigilation period. At last, they finally come up with the result along with highlighted firmswhich incurred high amount of expenses and in result having low productive growth.

[17]investigate Romanian Insurance Industry of selected 21 insurance firmsfor the factors which influence the financial performance. The data collection was secondary in nature from the yearly financial reports of the firmsfromthe Insurance Supervisory Commission. In the conclusion, they stated that the factors which were influencing the financial performance were the Size of the Company, growth of gross written premiums,underwriting risk, financial leverage, risk retention ratio and solvency margin(Burca & Batrinca, 2014).

[18] examine money oriented objectives of the firm listed in the Securities Exchange in Australia, consisting of couple of period’s frames (1998-2007 and 2008-2010).The method of this research was GMM. It’s about the relationship investigation between distinct variables like Ownership of the family and Performance of the companyin the recession slap. ROA and ROE is the firm’s performance indictor. The results concluded that the firms which have the family ownership showed better performance than non-family firms. In addition, financial leverage has the statically impact on the family owned firms in Australiaduring the decided time frame. It also reveal that the most of the firms having family ownership have the characteristics of risk introversion which doesn’t allow them to take risk in against of high profits.

HYPOTHESIS

For Return on Assets:

H1: The Asset turnover has significant impact on ROA.

H2: The Net Income Margin has significant impact ROA.

H3: The Quick Ratio has significant impact on ROA.

H4: The Financial Cost has significant impact on ROA.

For Return on Equity:

H1: The Asset Turnover has significant impact on ROE.

H2: The Net Income Margin has significant impact ROE.

H3: The Quick Ratio has significant impact on ROE.

H4: The Financial Cost has significant impact on ROE.

RESEARCH METHOD

This study is based on the entire industry of paper and board firms listed in Pakistan. Data is collected by using five years annual report (2013 - 2017) of paper and board firm available on Pakistan stock exchange website.

The research approach applied for this research is explanatory, as the impact of Net Income Margin, Quick Ratio, Financial Cost and Asset Turnover on ROA and ROE. Housman Test was applied to compare which test is more favorable between FEM and REM. A deductive approach has been adopted for this research project where the impact of Net Income Margin, Quick Ratio, Financial Cost and Asset Turnover on ROA and ROE of paper and board firmsof Pakistan has been critically analyzed and evaluated.

Correlation research design is applied to study the relation between Net Income Margin, financial cost, Quick Ratio and Asset Turn Over on ROA and ROE.Correlation is a statistical measure that quantifies the relationship between two variables [19, 20]. Panel Regression test is applied after checking Housman test. Housman test is applied to check whether the model of research is fit or not. This investigation is generalized after activity impact and execution. The near investigation of paper and board monetary examination would shape an extensive assessment of the assets and shortcoming of the firm in various tools of financial statement.

The researcher has targeted paper and board sector listed in Pakistan Stock Exchange. There are total 8 listed paper and board firms from which only 7 are taken into account as one firm i.e. Roshan Public Limited has only one year data as it's listed in year 2017.

Sample size is of 07 registered firms from paper and board sector listed in KSE for studying the significant influence of Net Income Margin, Quick Ratio, and Asset Turnover on ROA and ROE individually.

Simple Random Sampling is used where researching is analyzing the data through panel regression analysis. For FEM and REM model selection, Housman test was run to ensure which test is feasible to interpret the data. Descriptive test is also applied on this research.

Secondary data was collected from yearly financial reports of the companies. The data is extracted from the firm's balance sheet and statement of Profit and Loss account.

Secondary data was used in this study. Data was collected from profit and loss statement and balance sheet of companies registered at KSE from the year (2013-17), the data is published by SBP. The data was collected from annual reports of the Paper and board firms published on company's websites and Panel Regression is used to analyze the impact of independent variable on dependent variables.

For the purpose of this study "panel least square" was used. The data collected was pooled into E-Views and panel least square test to be run to study out the association between Performances of firms and all independent variable.

III. RESULTS AND ANALYSIS

Table 1is the output of descriptive statistics and correlation matrix. Column one consist of dependent and independent variables. Column two and three in the above table is the conclusion of descriptive statistics of mean and the standard deviation. All variable has positive mean and standard deviation. Another observation is the average value of ROA of companies i.e. mean 5.70 and standard deviation 5.266. All independent variable has the positive correlation with ROA and ROE.

Table 1: Descriptive and correlation

	MEAN	SD	ROA	ROE	ASSET TURN OVER	NET INCOME MARGIN	QUICK RATIO	FINANCIAL COST
ROA	5.708	5.2666	1.00					
ROE	10.266	7.79584	0.896*	1.00				

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ASSET TURNOVER	78.3090	40.71919	0.145	0.335	1.00			
NET INCOME MARGIN	10.443	9.7612	0.502*	0.337	-0.648*	1.00		
QUICK RATIO	1.6263	1.47601	0.332	0.343	-0.154	0.249	1.00	
FINANCIAL COST	28.10319	35.52989	-0.170	-0.273	-0.320	0.142	-0.337	1.00

Then the panel least square test using E views was used to find out what relationships that independent variables have on the dependent variables. This study is to find out whether Net Income Margin, Quick ratio, Financial Cost and Asset Turnover have significant impact on Return on equity and Return on Assets.Firstly, Housman Test was applied to compare which test is more favorable between Random and Fixed. Random Effect Model was found more favorable for both of the model as Sig Value for the model of Return on Equity and Return on Assets is greater than 0.05. It means Random Cross Section is applied for both model. Sig Value of ROA is 0.5076 (0.5076>0.05) and Sig Value of ROE is 0.073 (0.0731>0.05).

$$ROA_{it} = \alpha + \beta_1 ATO_{it} + \beta_2 FC_{it} + \beta_3 NIM_{it} + \beta_3 QR_{it}$$

Table 2: Model 1

Variable	Model 1 (ROA) PLS model	Model 1 (ROA) FE model	Model 1 (ROA) RE model
C	-9.517241* (0.0015)	-6.404772 (0.0746)	-7.096506* (0.0305)
ASSET TURNOVER	0.106075* (0.0000)	0.101036* (0.0068)	0.097755* (0.0008)
FINANCIAL COST	0.004421 (0.8226)	-0.012275 (0.7318)	-0.00414 (0.8687)
NET INCOME MARGIN	0.525186* (0.0000)	0.394336* (0.0009)	0.43406* (0.0001)
QUICK RATIO	0.805218 (0.0908)	0.262748 (0.5952)	0.450404 (0.3294)
Adjusted R2	0.625791	0.726509	0.453555
F-Statistics	13.12419 0.000007	9.559596 0.000016	7.017584 0.000624
HausmanTest $\chi2$ p-value			3.308659 0.5076

$$ROA_{it} = -7.09 + \beta_1 0.097_{it} - \beta_2 0.004_{it} + \beta_3 0.434_{it} + \beta_3 0.45_{it}$$

For Model 1; the result showed that two out of four hypotheses were rejected which means that Net Income Margin and Asset Turnover has significant influence on Return on Assets. These hypotheses were rejected exclusively because the P-values of Net Income Margin and Asset Turnover are 0.0008 and 0.0001 respectively which are less than sig Value 0.05. Which means there is a significant (positive relation) between dependent variable (ROA) and Independent Variables (Net Income Margin and Asset Turnover)? If Net Income Margin would increase by one unit, ROA will increase by 0.434 times (Rounded up to 3 decimal places) and if we increase Asset Turnover by one unit, ROA will increase by 0.098 times (Rounded up to 3 decimal places). This is supported by the fact that turning over resources is basic to keep an item engaged business running, as it results from powerful deals systems and results in more noteworthy income. Turning over

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resources at various rates can affect your net revenue, and your overall revenue can influence your advantage turnover rate in the meantime. Valuing methodologies, interest for items, operational efficiencies and stock cost structures would all be able to impact the harmony between resource turnover and net revenues. Seeing how turning over resources influences overall revenues can assist you with designing your estimating and deals procedures to boost your organization's productivity.

Similarly, the two hypotheses which were accepted and has no significant impact on ROAwasquick ratio and Financial Cost. It was accepted because their P-Value is greater than test value 0.05, which are0.3294 and 0.8687 respectively and in this case the significant value of constant is 0.0450 of Quick Ratio (rounded up to 3 decimal places) andof Financial Cost is-0.004 (rounded up to 3 decimal places) represent the average effect of all 30 cross-sections.

$$ROE_{it} = \alpha + \beta_1 ATO_{it} + \beta_2 FC_{it} + \beta_3 NIM_{it} + \beta_3 QR_{it}$$

Table 3: Model 2

Variable	Model 2 (ROE) PLS model	Model 2 (ROE) FE model	Model 2 (ROE) RE model
C	-13.61285* (0.0013)	-5.256689 (0.2559)	-10.21083* (0.0102)
ASSET TURNOVER	0.181804* (0.0000)	0.115365* (0.0168)	0.160636* (0.0000)
FINANCIAL COST	-0.001286 (0.9629)	0.017687 (0.7083)	-0.00885 (0.7568)
NET INCOME MARGIN	0.708691* (0.0000)	0.514779* (0.0010)	0.640794* (0.0000)
QUICK RATIO	1.400229* (0.0390)	0.378565 (0.5622)	0.894355 (0.1303)
Adjusted R2	0.663411	0.782565	0.545228
F-Statistics	15.28963 0.000002	12.59699 0.000002	9.692061 0.000071
DW-Statistics	1.248224	2.026615	1.396854
Hausman Test $\chi 2$ p-value			8.558022 0.0731

$$ROE_{it} = -10.21 + \beta_1 0.16_{it} - \beta_2 0.008_{it} + \beta_3 0.64_{it} + \beta_3 0.89_{it}$$

For Model 2; the result showed that two out of four hypotheses were rejected which means that Net Income Margin and Asset Turnover has significant influence on ROE. These hypotheses were rejected exclusively because the P-values of Net Income Margin and Asset Turnover are 0.0000 and 0.0000 respectively which are less than sig Value 0.05. In result, there is a significant (positive relation) between dependent variable (ROE) and Independent Variables (Net Income Margin and Asset Turnover). If we increase Net Income Margin by one unit, ROE will increase by 0.641 times (Rounded up to 3 decimal places) and if we increase Asset Turnover by one unit, ROE will increase by 0.161 times (Rounded up to 3 decimal places). ROE is an important financial performance indicator for any firm, it tells you that if you're the risk extrovert and an enthusiastic workaholic person in running your own business then it will really pay you off. If to put a reference, turnoveris actually speed of sales in positive relation to assets or to merchandise, turnover ratios impact your ROE and must be monitored all the times.

Similarly, the two hypotheses which were accepted and has no significant impact on ROEwasquick ratio and Financial Cost. It was accepted because their P-Value is greater than test value 0.05, which are0.1303 and 0.7568 respectively and in this case the constant 0.894(Rounded up to 3 decimal places) of Quick Ratio and -0.009 (Rounded up to 3 decimal places) of Financial Cost represent the average effect of all 30 cross-sections.

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Table 4: Hypothesis Summary

S.No.	Hypothesis	Sig Value	Empirical Conclusion
	Model 1		
1	H1: The Quick Ratio has significant impact on ROA.	0.05<0.3294	Accepted
2	H2: The Net Income Margin has significant impact on ROA.	0.05>0.0001	Rejected
3	H3: The Financial Cost has significant impact on ROA.	0.05<0.8687	Accepted
4	H4: The Asset Turnover has significant impact on ROA.	0.05>0.0008	Rejected
	Model 2		
5	H1: The Quick Ratio has significant impact on ROE.	0.05<0.1303	Accepted
6	H2: The Net Income Margin has significant impact on ROE.	0.05<00000	Rejected
7	H3: The Financial Cost has significant impact on ROE.	0.05<0.7568	Accepted
8	H4: The Asset Turnover has significant impact on ROE.	0.05>0.0000	Rejected

IV. CONCLUSION, DISCUSSION, IMPLICATIONS, LIMITATIONS AND RECOMMENDATIONS

Researcher has discovered that what are the significant factor are having the significant impact on return on assets and return on equity. There are many factors having an impact on return on assets and return on equity but researcher has studied very few major factors like Net income, financial Cost, asset turn over and Quick ration. Net income and financial cost has a significant impact on return on assets and return of equity. It is supported by the fact that high net income shows the high Cost benefit analysis of organization, the high that income shows the company has many options to ether invest the money the in the external environment or internal environment. Higher the net income is, higher will be the return on assets and return on equity. This paper analyzed the connection between administration in working capital (components of Assets in Balance sheet and gainfulness for the 31 recorded organizations on Pakistan stock trade. Multiyear information gathered from 2013 till 2017 which was utilized to translate the underlying speculation. They checked the relationship of various factors to be specific, NIM, ATO, QR and FC on ROA and ROA. Distinct information investigation i.e. Pearson relationship are utilized to test the discoveries. The trial yield demonstrates that there is a negative relationship is between money transformation cycle and ROA and money change cycle and ROE. In any case, the connection between current proportion and ROE is statically irrelevant.

We sought after two models with this examination. the monetary execution variables of cash arranged segments recorded in KSE in the middle of the time period of 2008 and 2012.Final yield removed after the Descriptive measurements, Chaw, Hausman test and connection application, It was discovered that the elements of cash situated divisions, for example, Liquidity, Tangibility, Leverage, , Size, and hazard, has effect on money related execution. It is being reasoned that the parts of cash situated must consider EVA as a center factor for budgetary execution marker. It is additionally proposed that high number of free factors then high number of chances will be there for future examinations. Due to dearth of evidence on financial determinants on Paper and board firms in Pakistan, there is a need of systematic literature review for the future to develop more gaps and researches for managerial implication, AMSTAR tool as systematic literature review method is recommended as best methodology [21]. Furthermore, exploratory factor analysis and MLR analysis [22] is recommended for future research to explore the new dimension (factors/items) that influence return on assets and equity.

Turning over resources is basic to keep an item engaged business running, as it results from powerful deals systems and results in more noteworthy income. Turning over resources at various rates can affect your net revenue, and your overall revenue can influence your advantage turnover rate in the meantime. Valuing methodologies, interest for items, operational efficiencies and stock cost structures would all be able to impact the harmony between resource turnover and net revenues. Seeing how turning over resources influences overall revenues can assist you with designing your estimating and deals procedures to boost your organization's productivity.

Our discoveries include inquiring about organization recuperation, particularly on how people's prosperity at function profits by time off the activity. To the best of our insight, this is the secondary examination which expressly researched indicators of the analyzing the impact of dependent and independent variable. This investigation has confinements, in particular:

The example estimate incorporated into this exploration think about is inferred on paper and board associations that are recorded in Pakistan Stock Exchange. Also, information gathered by the money related report &SCS exchange of the 31 distinct enterprises of paper and allied firms. This restriction of the investigation happens because of narrowing down the extent of the examination think about.

Additionally, this examination thinks about just spotlights on the revelation and execution of income exercises and their effect on the offer cost. Net income exercises may shift from authoritative, financial cost arranging and the requirement for financing.

This exploration proposed to decide the relationship of income exercises on offer cost of the association. Every other factor impacting the authoritative execution and exercises are not mulled over while building up the model of the exploration ponders.

As per previous output, the analytical approach allow us to broad up the opportunity to discuss and in what way this study is approaching us all to the new dimension are as follows:

1. We're searching for organizations with high edges however there's one more issue to consider an organization with low overall revenue can in any case be fruitful in the event that it has a high resource turnover.
2. With the end goal to support a high ROE however, we watch out for net revenue just as a marker of execution slant. In the event that the organization's overall revenue is dropping, we would begin to have concerns and would need to comprehend why. Maybe the organization is losing its upper hand, or maybe its expenses and costs are not being obliged.
3. In outline, authors think there is little correlation between net revenue and ROE, other than that the two measurements utilize net salary as a deciding variable. ROE is a decent pointer of an organization's quality. What's more, net overall revenue is a decent marker of the organization's execution incline.
4. This research is limited to paper and board industry in Pakistan, future research should emphasize on the globalized context [23].

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