World Vision

ISSN: 2078-8460

Vol. 9 • No. 1 • Nov 2015

Implications of Working Capital Management on Profitability: A Case Study on Al-Arafah Islami Bank Limited

Farhana Rob Shampa*

Abstract

Liquidity refers to a firm's ability to fund increase in assets and meet obligations as they fall due. Working capital includes all the current assets and current liabilities. This paper is an attempt to investigate the effects of working capital management efficiency as well as maintaining liquidity on the profitability of Al-Arafah Islami Bank Limited. The paper tries to find out whether empirical results on the relationship between working capital management practices and profitability of banks like of Al-Arafah Islami Bank Limited as an Islamic Bank in Bangladesh. The target population was made up of only one private commercial Islamic bank in Bangladesh; this was over a period of 5 years from 2008 to 2012. The data was collected from secondary sources; these were from published financial statements. The descriptive statistics such as mean and standard deviation were used to measure variations. Statistical inferences were drawn using correlation and regression analysis in analyzing the data and testing of hypotheses. The key findings from the study were: cash conversion cycle , debtors' collection period and growth of the bank have significantly negative relationship with liquidity of Al-Arafah Islami Bank Limited; this means that more liquid banks take the shortest time to collect cash from their customers. Leverage, Cash conversion cycle &credit risk have significantly positive relationship with liquidity of quoted commercial banks in Islamic banks in Bangladesh, this implies that the longer the bank takes to pay its creditors, the more liquid it is. Findings of this study add to knowledge and understanding of the subject of working capital management and its implication on liquidity risk on Al-Arafah Islami Bank Limited.

***Keywords**: Working capital management, Profitability, liquidity, AIBBL*

Introduction

Working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of the company. It deals with current assets and

* Senior Lecturer in Finance, Department of Business Administration, Northern University Bangladesh, Dhaka, Bangladesh, E-mail: frfshampa@yahoo.com

current liabilities. Working capital management is important due to many reasons. For one thing, the current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Horne and Wachowicz, 2000). Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short term obligations on the one hand and avoid excessive investment in these assets on the other hand (Eljelly, 2004). On the other hand, Capital Working Capital refers to that part of the firm's capital, which is required for financing short-term or current assets such a cash marketable securities, debtors and inventories. Funds thus, invested in current assets keep revolving fast and are constantly converted into cash and this cash flow out again in exchange for other current assets. Working Capital is also known as revolving or circulating capital or short-term capital. Working capital management is aimed at ensuring the sustainability and fulfillment of two main corporate objectives; liquidity and profitability. The main thrust of this work is to ascertain the relationship working capital management and bank cash holding in Bangladesh. Among all the problems of financial management, the problems of working capital management have probably been recognized as the most crucial one. It is because of the fact that working capital always helps a business concern to gain vitality and life strength. The objective of this study is to critically evaluate working capital management as practiced in the selected Islamic banks of the Banking industry. To achieve this goal the study also examines the policy and practices of cash management.

The way that working capital is managed has a significant impact on profitability and cash holdings of firms, Efficient working capital management is known to have many favorable effects: it speeds payment of short-term commitments on firms ; it facilitates owner financing; it reduces working capital as a cause of failure among small businesses; it ensures a sound liquidity for assurance of long-term economic growth and attainment of profit generating process; and it ensures acceptable relationship between the components of firms working capital for efficient mix which guarantee capital adequacy, inefficient working capital management also induces small firms' failures, overtrading sign, and inability to proper firm liquidity and profitability, Consequently, there appears to be a certain level of working capital requirement, which potentially maximizes returns. Firms may have an optimal level of working capital that maximizes their value. Large surplus funds and generous lending rate may lead to high loan management reach out. For all countries, both developed and developing, one of the fundamental objectives of working capital management is to ensure that the organization has sufficient, regular and consistent cash flow to fund its activities. This requirement is particularly heightened for financial institutions like banks. For banking business, being liquid is not negotiable, at least for two reasons; to meet regulatory requirement in addition to ensuring that they have enough liquid funds to meet customer withdrawals. Working capital management is aimed at sustaining strong profitability together with sound liquidity which in turn leads to strong cash holdings for ensuring effective and efficient customer services. Banking liquidity represents the capacity of a bank to finance

itself efficiently the transaction. The liquidity risk, for a bank, is the expression of the probability of losing the capacity of financing its transaction, respectively of the probability that the bank cannot honor its obligations to its client's (withdrawal of deposits, maturity of other debt, and cover additional funding requirements for the loan portfolio and investment). Management of working capital is an important component of corporate financial management because it directly affects the profitability and liquidity of all firms. Liquidity is important for banks because it helps it to access its resources quickly in order to meet its financial obligations. Obviously, banks are vital importance to the Bangladesh an economy. In spite of its importance and attractiveness, not all banks have had it easy operating in the country. While some banks have had to liquidate others have been forced to submerge into others. Even though strong empirical support may not be found to support the assertion that poor working capital management practices could play a major in bank performance and failures, very few would deny it. These are the major motivations for the current study. Specifically, the study unveils the relationship between working capital management and profitability of Al-Arafah Islami Bank Limited (AIBL) as a sample of case study.

Objectives of the Study

- To examine the relationship between working capital management and profitability of Al-Arafah Islami Bank Limited (AIBL) during 2008-2012.
- To establish relationship between the two components liquidity and profitability of Al-Arafah Islami Bank Limited (AIBL).
- To suggest some measures for improvement in working capital management of Al-Arafah Islami Bank Limited (AIBL).

Significance of the Study

Financial management in banks and large enterprises bear strong similarities. However, there is a significant disparity which substantiates the study of financial management in banks. Since banks of developing countries experience difficulties in accessing external finance, they rely more strongly on internally savings funds than larger banks from developed economies. Working capital management thus plays an important role in the liquidity of banks in developing countries. There is an assertion confirmed that working capital related problems are cited among the most significant reasons for the failure of rural and community banks in Bangladesh. As working capital management is related to short-term financial planning and cash level or liquidity in general represents a significant indicator for short-term performance, the effective and efficient working capital management should be of crucial importance, hence this study. Working Capital has an important role played by banks in developing countries also like Bangladesh has been increasingly realized over the past years. Not only a bank that is important for vitality of retail and microfinance business sectors, but they also serve as a major source of funding for non-financial firms and provide new jobs for citizens in the country. The banking industry also appears not to be doing badly, given the high level of influx of both Bangladesh and foreign banks into the country. Obviously, banks are vital importance to the Bangladesh an economy. In spite of its importance and attractiveness, not all banks have had it easy operating in the country. While some banks

have had to liquidate others have been forced to submerge into others. Even though strong empirical support may not be found to support the assertion that poor working capital management practices could play a major in bank performance and failures, very few would deny it. These are the major motivations for the current study. Specifically, the study unveils the relationship between working capital management and profitability of AIBL as a Islamic banks.

Literature Review

Profile of the AIBL: Al -Arafah Islami Bank Ltd. was established (registered) as a private limited company on 18th June, 1995. The Authorized capital of the Bank is Tk. 5000.00 million and the Paid up capital is Tk. 4677.28 million. Renowned Islami Scholars and pious business persons of the country are the sponsors of the Bank. Paid up capital is being owned 100 percentage by indigenous shareholders.

Concept of 'Working Capital Management

A managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other. Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

Implementing an effective working capital management system is an excellent way for many companies to improve their earnings. The two main aspects of working capital management are ratio analysis and management of individual components of working capital. A few key performance ratios of a working capital management system are the working capital ratio, inventory turnover and the collection ratio. Ratio analysis will lead management to identify areas of focus such as inventory management, cash management, accounts receivable and payable management.

Importance of Working Capital Management

Working capital management (WCM) refers to the strategies put in place to manage the relationship between the short term assets of a company with its short term liabilities. The objective of this is to make sure that an organization continues with its operations and meet its obligations when they fall due. Generally working capital management decisions are for the short term, mainly for a single financial year. Examples of WCM include monitoring receivables actively and maintaining little short term liabilities. If done properly, WCM will help increase earnings and establish a financially healthy organization.

There are three approaches to managing working capital; these are conservative, moderate and aggressive approaches.

a)The conservative approach

This involves a large investment in current assets resulting in a high liquidity level. It involves using long term debt and equity to finance non-current assets and some current assets as well. Firms that use this approach have a large amount of working capital and thus relatively face lower risks. However, long term financing is more expensive than the short term financing.

b) The moderate approach

This approach focuses on balancing risks and returns. Short term current assets are financed with short debts while non-current assets are financed with long term debts and equity. This involves matching risks to the returns expected. This approach results in a moderate amount of working capital and a moderate risk level.

c)The aggressive approach

Firms that use this approach use short term debts to finance all its current assets and some of its non-current assets. This can only support a low level of production and sales. Short term debts are riskier than long-term ones. There is an increased rate of potential returns due to their low costs but the risk on the firm increases because these debts are faced with the risk of fluctuating interest rates.

Factors to consider in managing your working capital

The approaches to managing working capital depend on many. The nature of your business and the industry you are operating in greatly influence working capital, in addition, your skill of operations and prospects for growth are also key factors. Other factors influencing are firms operating efficiency, profit margin and the rapidity of sales turnover. Government regulations and other policies such as the taxation policy, dividend policy and the depreciation policy are also important factors to consider.

Importance of working capital

An effective will help you meet your obligations when they fall due, thus, if creditors make immediate demands for their money, you are able to meet them. Being able to pay your creditors without fail will improve your reputation in your business environment, the creditors will become loyal to you. A positive working capital will also enable firm to pay its daily operation expenses such as swages bills and other overheads resulting in a smooth flow of operations without unnecessary stoppages. It is therefore very important to put in place an excellent working capital management system to ensure your organization operates optimally. Balancing your needs with obligations will also help you to avoid bankruptcy.

Components of Working Capital

Each company has different demands for how much Working Capital (WC) they need, but all companies prefer to have positive WC (recall that WC = current assets - current liabilities). Having too little WC impairs a company's ability to meet its financial obligations. It is hard to pay expenses or debts that come due in the short-term. Having too much WC can also be bad because it means that there are assets that are not being invested. Holding too many short term assets slows future growth of the company. Thus, managing WC to an acceptable level is one of the most important jobs of management.

- ***Cash management:*** Identify the cash balance that allows the business to meet day to day expenses, but reduces cash holding costs. Cash is a CA.
- ***Inventory management:*** Identify the level of inventory which allows for uninterrupted production but reduces the investment in raw materials--and minimizes reordering costs-and hence increases cash flow. Inventory is a CA.
- ***Debtors management:*** Identify the appropriate credit policy, such as credit terms, that will attract customers, such that any impact on cash flows and the cash conversion cycle will be offset by increased revenue and hence Return on Capital (or vice versa). Credit extended to customers (accounts receivable) is a CA.
- ***Financing management:*** Identify the appropriate source of financing. Short-term financing (as well as long-term financing that comes due in the next year or operating cycle) is a CL.

By adjusting these four primary influencers on CA and CL, management can change WC to a desirable level.

Bank Liquidity

Liquidity for a bank means the ability to meet its financial obligations as they come due. Bank lending finances investments in relatively illiquid assets, but it funds its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions.

Asset Management Banking

Commercial banks differ widely in how they manage liquidity. A small bank derives its funds primarily from customer deposits, normally a fairly stable source in the aggregate. Its assets are mostly loans to small firms and households, and it usually has more deposits than it can find creditworthy borrowers for. Excess funds are typically invested in assets that will provide it with liquidity such as Fed funds loaned and Bangladesh government securities. The holding of assets that can readily be turned into cash when needed, is known as asset management banking.

Liability Management Banking

In contrast, large banks generally lack sufficient deposits to fund their main business -dealing with large companies, governments, other financial institutions, and wealthy individuals. Most borrow the funds they need from other major lenders in the form of short term liabilities which must be continually rolled over. This is known as liability management, a much riskier method than asset management. A small bank will lose potential income if gets its asset management wrong. A large bank that gets its liability management wrong may fail.

Key to Liability Management

The key to liability management is *always* being able to borrow. Therefore a bank's most vital asset is its creditworthiness. If there is any doubt about its credit, lenders can easily switch to another bank. The rate a bank must pay to borrow will go up rapidly with the slightest suspicion of trouble. If there is serious doubt, it will be unable to borrow at any rate, and will go under. In recent years, large banks have been making increasing use of asset management in order to enhance liquidity, holding a larger part of their assets as securities as well as securitizing their loans to recycle borrowed funds.

Bank Runs

A bank run is an overwhelming demand for cash by a bank's depositors. With the advent of deposit insurance, bank runs by small depositors are largely a thing of the past. Insurance is limited to $100,000 per deposit, which provides complete coverage to about 99% of all depositors. But it covers only about three-fourths of the total amount of deposits because many accounts far exceed the insurance limits.

A large depositor assumes a risk and needs to know something about the bank's own balance sheet. However a healthy balance sheet does not eliminate all risk. Even if the depositor knows the bank has adequate liquidity, others may not. Large depositors must therefore be concerned about what others are likely to believe.

Why Liquidity Is Important for Banks?

Liquidity is important for banks because it helps it to access its resources quickly in order to meet its financial obligations. Without cash, banks can quickly get into trouble with their creditors. Banks with a higher debt/equity ratio will be less liquid, as more of their available cash must be used to service and reduce the debt.

Explain the relation between the Profitability and Liquidity for a bank

Profitability is the difference between income and expense. Liquidity is the ability to turn assets in to cash quickly. Vault cash is the most “liquid” asset. Stocks and bonds are liquid because they can be sold immediately; real estate is “illiquid” because it may take to long time to sell. Note that “liquid” does not mean you can sell at a profit, or even at fair market value, just that it can quickly and easily be sold for cash.

Factors Affecting Bank Profitability

Even though profitability does not necessarily mean liquidity, profitability ensures firm survival, growth and less debatably firm liquidity levels. Among the key factors that influence bank profitability are capital structure, growth, size, market discipline, risk and reputation.

a) Capital Structure

The relationship between capital structure and firm profitability has been shown to be bi-directional. Some findings reveal a positive relationship between debt and firm profitability Abor, 2005 and Agyei, 2010) while others show a negative relationship.

b) **Growth**

Growth firms have more avenues to invest their funds and are likely to stay profitable than firms with little or no growth. Couple with the fact that companies with high growth option might exhibit shorter CCC (Emery, 1987; Petersen and Rajan 1997; and Cunat, 2007) it is much more likely that banks with high growth prospects can increase their profitability.

c) Size

There is a long standing relationship between size and profitability because of economics of scale and increased bargaining power. Thus it is expected that larger banks that managed their size well and guard against diseconomies of scale are better able to outperform smaller banks.

d) Age

Banks that have existed for long are expected to have acquired economically beneficial loyalties from their suppliers of funds and customers. These loyalties, in addition to the wealth of experience gained over the years, are expected to translate to high profitability. However this may hardly be the case for banks which have not consciously built their reputation over the years.

e) Credit Risk

One of the biggest challenges of banking business is the risk that borrowers may not be able to pay the principal and interest when the time is due. We assess the impact of credit risk (measured as loan loss ratio) on the profitability of Islamic banks in Bangladesh, as this risk is likely to influence the performance of banks.

Methodology:

For the purpose of this study, secondary data have been collected and the data was collected from annual report. The study covers five years from 2008-2012. There are 9 Islamic Banks in Bangladesh among them 8 banks are private commercial and 1 is Foreign Islamic bank in Bangladesh. This study selected Af-Arafh Islami Bank Limited has been selected as a case study for said research.

Model of Variables:

The basic model is written as follows:

$$Y = a + bX + e$$

Where

Y = is the dependent variable
a = is the intercept
b= is the slope or regression coefficient
X =is the independent variable
e= is the error term

Dependent variable: ROE

Independent Variable: CCC, CPP, DCP, TDA, GRO and LLR.

Variables:

This study undertakes the issue key variables that influence working capital management of Arafah Islami Bank Limited. Choice of the variables is influenced by the previous studies on working capital management. All variables stated below have been tested the hypotheses of this study. They include dependent and independent and some control variables:

The variables that have been used are as follows:

For the purpose of analysis the ultimate measurement of profitability has been chosen to be return on equity (ROE).

Variables calculations

Dependent variable:

Return on equity (ROE) = Net Income after Taxes / Total Equity Capital.

Independent Variables are: CCC, CPP, DCP, TDA, GRO and LLR.
Cash Conversion Cycle (CCC): Debtors collections period –Creditors payment period
Creditors Payment Period (CPP): Short term debt/Interest expense
Debtors Collection Period (DCP): Current Assets/Investment Income
Leverage (TDA): Total Debt/Net Asset
Bank Growth (GRO)= Year on Year change in interest Income
Credit Risk (LLR): Non Performing Loan/Gross Loan

Table-01: Definition of variables (proxies) and expected signs

VARIABLE	DEFINITION	EXPECTED SIGN
PROF	Profitability = Ratio of earnings before interest and Taxes to Equity Fund for Bank i in time t	
CCC	Cash Conversion Cycle = The difference between Debtors Collection Period and Creditors Payment Period for bank i in time t	+/-
CPP	Creditors Payment Period = The ratio of bank short-term Debt to Interest expense x 365 for Bank i in time t	+/-
DCP	Debtors collection period= The Ratio of Bank current Assets to interest Income x 365 for Bank i in time t	+/-
TDA	Leverage=The Ratio of total Debt to Net Assets for Bank i in time t	+/-
GRO	Bank Growth= Year on Year change in interest Income for Bank i in time t	+/-
LLR	Credit Risk = Annual bank nonperforming loans to total gross loans (%). Each year's ratio is applied to all banks existing in that year.	+/-

Hypothesis of the Study:

$H0_1$ - There is a no statistically significant relationship between CCC and profitability of the bank.

$H0_2$ - There is a no statistically significant relationship between CPP and profitability of the bank.

$H0_3$ - There is a no statistically significant relationship between DCP and profitability of the bank.

$H0_4$ - There is a no statistically significant relationship between TDA and profitability of the bank.

$H0_5$ - There is a no statistically significant relationship between GRO and profitability of the bank.

$H0_6$ - There is a no statistically significant relationship between LLR and profitability of the bank.

RESULTS AND DISCUSSION

The following table-2 gives the descriptive statistics of the collected variables. The mean and median of ROE is 21.32% and 24.01% respectively. The CCC shows that, it takes the bank's around 93 days on average (median 107 days) to realize it is good. While creditors' payment periods are minimum is 179 days and maximum is 253 days and average is 241 days (median 205 days). On the other hand, Debtors collection period shows minimum is 255 days and maximum is 360 days and average is 307 days. Leverage minimum is 1% and maximum is 70.57% and mean is 8%. Credit risk (LLR) is minimum is 1.06% and maximum is 3.01% and mean and median is 21.32% and 24.01%.

Table-02: Descriptive Statistics

Variables	Min	Max	Mean	Median	Stand Deviation
CCC	44	127	93	1.07	33.037
CCP	179	253	214	2.05	30.433
DCP	255	360	3.07	3.09	4..9719
TDA	5.55	10.25	8.002	7.59	2.12856
GRO	1	70.57	27.22	24.49	27.33
LLR	1.06	3.01	1.966	1.82	.71
ROE	15.49	24.55	21.32	24.01	4.103

In quantitative analysis this paper applied two methods: Firstly, used correlation models, specifically Pearson Correlation to measure the degree of association between different variables under consideration. Secondly, this analysis used Regression analysis to estimate the causal relationships between profitability variable, liquidity and other chosen variables.

Pearson's Correlation Coefficient Analysis

Table 3 presents Pearson correlation coefficients for all variables considered. The correlation results showed the relationship between the creditors' cash payment period and return on equity (proxy of profitability). By analyzing the results it will be concluded that

if the firm is able to reduce these time periods, then the firm is efficient in managing working capital. This efficiency will lead to increasing its profitability. There is a strong positive correlation between ROE with Cash Conversion Cycle, Leverage and credit risk, which is 5.1% and 64.3% and 48% respectively. These results together showed that profitability has strong positive relation with AIBL leverage and credit risk. There was a negative relationship with creditors' payment period, Debtors payment period and growth. That means as banks increases the length of time it takes to pay for loans and other payments, it reduces the burden on their cash and therefore gives them the opportunity to hold more cash and cash equivalent. But is a negative relationship between the Profit and CPP, DCP and GRO are -26.7%, -15.7%, -37.3%, respectively with profitability.

CORRELATION BETWEEN PROFITABILITY RATIOS AND WORKING CAPITAL RATIOS

Table-03: Correlation Matrix.

VAR	PROF(ROE)	CCC	CPP	DCP	TDA	GRO	LLR
PROF (ROE)	1						
CCC	.051	1					
CPP	-.267	-.169	1				
DCP	-.157	.681	.607	1			
TDA	.643	.239	-.868	-.452	1		
GRO	-.373	-.644	-.004	-.522	-.068	1	
LLR	.478	.053	-.892	-.620	.785	-.265	1

Source: SPSS

Regression Analysis

The results of this regression indicate that the coefficient of accounts receivable is negative and is highly significant at 5%. It implies that the increase or decrease in Cash Conversion Cycle will significantly affect profitability of the firm. The creditors payment periods ratio which is a traditional measure of liquidity has also a significant negative relationship with profitability which confirms our hypotheses that liquidity and profitability has inverse relationship.

This study used the Cash Conversion Cycle (CCC) ratio; it shows negative relationship with profitability. The adjusted R^2 , also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables and is 3%. The C is the constant, where the regression line intercepts the y axis, representing the amount the dependent y will be when all the independent variables are 0. Here C is 0.051; the probability of the coefficient is significant. The F statistic is used to Test the significance of R. Overall; the model is significant as F-statistics is .08.

From below table (3 and 4) R is 5.1% and Adjusted R square for CCP is 7.1% and F statistics for CCP is 23.1%. For Deferral Cash Payment (DCP) R is 15.7% and Adjusted R square is -30% and F statistics for DCP is 7.6%. It means that Creditors payment and Debtors payment period is negatively related with Return on Equity (ROE). It has been found that debtors'

collection period, creditors' payment period and cash conversion cycle are key factors which explain the level of cash held by Al-Arafah Islami Bank Limited.

Based on hypothesis 4, model shows that effect of working capital on Leverage, here, TDA used as a proxy, effects on profitability. It was found for TDR adjusted R square is 41.3%, F=211%, t=145% and at 5 % level of significance. It is found that there is strong positive relation between leverage and profitability.

A multiple regression test done to test to test hypothesis 5 Growth shows that the R^2=.430, f=2.259, t=-.697. The result indicated that ROE has significant negative relationship with growth of the bank. A multiple regression test done to test to test hypothesis 6 shows that .R^2=.228, f=.887, t=.942. the results shows log of growth used as proxy for size of a company shows a significant negative relationship with profitability which means that bigger size banks have more profitability compared to firms of smaller size. In case of financial assets to total assets ratio, it also has a significant negative relation with profitability. It reflects that if this ratio increases the operating profitability will decrease.

From ANOVA test (table 4) it is revealed that the table significance value is grater that the calculated value. So, it rejected null hypotheses H1, H3 and H5 (CCC is .082, DCP is .025, GRO is .139) at % 5 level of significance. But it accepted null hypotheses H2 and H3 and H6 (CCP is .203, TDA is .413, LLR is .228) at % 5 level of significance. Thus, it can conclude that the there is a strong significant relationship between liquidity and bank profitability in terms of Cash Conversion cycle Debtors payment and growth of the bank.

Table-04:

Model (a)	ROE	19.555+.007X	CCC	.082	Reject
Model (b)	ROE	28.602-0.039X	CCP	.203	Accept
Model (c)	ROE	25.455-0.017X	DCP	.025	Reject
Model (d)	ROE	9.441+1.345X	TDA	.413	Accept
Model (e)	ROE	20.818-0.44X	GRO	.139	Reject
Model (f)	ROE	15.310+2.769x	LLR	.228	Accept

** Significant at the level of 0.005 **Source: SPSS**

Resuls

Table-05: Regression Analysis:

Dependent variable	Independent variable	R	R Square	Adjusted R Square	Coefficients	F-test	T-Stat	Std. Error
ROE	CCC	.051	.03	-.33	.051	.08	.089	.078
ROE	CPP	.267	.071	-.238	-.267	.231	-.481	.081
ROE	DCP	.157	.025	-.3	-.157	.076	-.276	.062
ROE	TDA	.643	.413	.218	.643	2.113	1.454	.925
ROE	GRO	.343	.139	-.148	.063	.486	-.697	.063
ROE	LLR	.478	.228	-.029	.764	.887	.942	4.5161

Source: SPSS Result

Conclusion

It can conclude that the there is a significant relationship between liquidity and bank profitability. It is found that there is strong positive relation between leverage and profitability. It is found that there is negative positive relation between Cash conversion cycle ,Creditors' payment period, Debtors payment period, credit risk and growth of the bank. On the other hand, the results seem to suggest that prolonging the payment period for loans and advances granted to customers reduces the cash holding of banks. The benefit or otherwise of holding cash by banks can be looked at form in which cash is held. It bank holds too much cash it reduces its profitability. But bank hold cash is minimum if not for the precautionary and transaction motives. Consequently, in a situation where there is available investment opportunities, holding more cash can be detrimental to the bank. This notwithstanding, the fact still remains that banks are able to increase their cash holdings when they shorten their debtors collection period relative to their creditors' payment period or shorten the cash conversion cycle.

Thus, this study finds enough evidences that a firm is likely to enjoy better profitability if the firm manages its working capital with better efficiency and focuses on cash position with more care. Efficient management of working capital and liquidity has a positive effect on the banks profitability. So, bank should manage its Working Capital properly. The conclusions are in confirmation with (Deloof 2003), (Eljelly 2004), (Shin and Soenan 1998) who found a strong negative relationship between the measures of working capital management including the average collection period, inventory turnover in days, average payment period and cash conversion cycle with corporate profitability. On basis of the above analysis it may further conclude that these results can be further strengthened if the banks manage their working capital in more efficient ways. Management of working capital means "management of debtors' collection period and creditors' payment period, and financing these current assets". If these firms properly manage their cash, Cash conversion cycle, leverage and credit risk in a proper way, this will ultimately increase profitability of these companies. There is much to be done about working capital in Islamic Bangladesh in future. This paper suggests that further research be conducted on the same topic with different banks and extending the years of the sample. This research was based only one Islamic bank. So get a clear picture there will lot of opportunities for researchers for further research.

References:

Aburime T U (2008). *Determinants of Banks Of Bank Profitability: Macroeconomic Evidence from Nigeria*. Social Science Research Network, Deakin University.

Afza, T. and Nazir, M. (2009). Impact of aggressive working capital management policy on firms profitibility. *The IUP Journal of Applied Finance* , Vol 15:20-30.

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions*. Benin City. Hybrid Professional Publishers Ltd, Central Bank of Nigeria: Statistical Bulletin (Various Editions).

Amir Shah, S.M. and Sana, A. (2006). Impact of working capital management on the profitability of oil and gas sector of Pakistan, *European Journal of Scientific Research*, Vol.15: 301-307.

Anas, E. and Mounira, B. A. (2008). Managing Risks and Liquidity in an Interest Free Banking Framework, the Case of the Islamic Banks. *International Journal of Business and Management,* Vol 1:80-95.

Barr, N. (2004). *Problems and definition of measurement*. *In Economics of the welfare state*. New York :Oxford University Press. Basel Committee on Banking Supervision, (2006). *The management of liquidity risk in financial groups*, Bank for International Settlement.

Dodds, J. Colin, (1982) "*The Term Structure of Interest Rates: a Survey of the Theories and Empirical Evidence*", Managerial Finance, Vol. 8 Iss: 2, pp.22 - 31 (1982) "The Term Structure of Interest Rates: a Survey of the Theories and Empirical Evidence", Managerial Finance, Vol. 8 Issue: 2, pp.22 – 31

Eljelli M. A. (2004), *Liquidity-profitability tradeoff: An empirical investigation in emerging market*. International Journal of Management Vol. 14. Emerald Publishing Ltd.

Nahum Nahum and Amarjit S. Gill (2013), *The impact of corporate governance on working capital management efficiency of American manufacturing firms*, Emerald Publishing Ltd.

Nwaezeaku, N. C. (2006). *Theories and Practice of Financial Management*. Owerri. Ever Standard Publishing. Nwankwo U. (1992).

Shin, H.H and Soenen, L. 1998. "Efficiency of Working Capital Management and Corporate Profitability", *Financial Practice and Education, Vol 8 No 2*, pp 37-45
