

The study is made to explore the impact of leverage and liquidity on the performance of firms. Liquidity and leverage are two of the most important pillars and on these pillars whole operations of the business stand. This research has attempted to establish a relationship between leverage and liquidity with the financial performance of firms operating in Pakistan. Some selected textile firms operating in Pakistan were selected as sample for the research.

The data of 76 textile firms was collected. The variables included in this research relating to leverage are as follows total debt to total asset ratio, short term debt to total asset ratio and long term debt to total asset ratio. Liquidity was calculated by using current ratio only. Size was included as control variable. Seven performance variables are used in this research like

ROE, ROA, and EPS etc. Descriptive, correlation and panel data analysis were made. Panel data test was applied to find regression between variables. The findings of this research were that low leverage ratios mean high performance as it is negatively associated with performance. Liquidity was significantly and positively related to the performance of textile firms. All the variables except stock price (SP) have positive and significant relationship with the leverage and liquidity of the textile firms. Stock price has no relation with the leverage of the firm while, positive and significant relation with the liquidity of the textile firms.

Government should take considerable steps in promoting investment and growth of textile sectors_ Management should formulate careful strategies relating to the decisions involved in the capital structure and liquidity. The similar research can be repeated by adding new variables and by changing the nature of study into exploratory research.