

The Impact of Leverage, Liquidity, Sales Growth, and Cash Flow Operating on Financial Distress with Interest Rates as a Moderating Variable

Maham Saleem, Talha Majeed Khan

Riphah School of Business and Management, Riphah International University, Lahore, Pakistan

ABSTRACT

Purpose: This study investigates the impact of leverage, liquidity, sales growth, and cash flow operating on financial distress in Pakistan's power generation and distribution sector, with interest rates as a moderating variable.

Design/Methodology/Approach: The research adopts a quantitative approach and utilizes econometric modeling to analyze the relationship between financial variables and distress in 14 power-generating and distribution companies in Pakistan from 2018 to 2022. Panel data regression with the Random Effect Model handles unobserved heterogeneity across companies over time.

Findings/Results: The study found that operating cash flow and leverage have a significant positive influence on financial stability, while leverage and liquidity have a clear negative impact on it. On the other hand, sales growth has a significant effect on financial stability. Additionally, the research conclusively established that interest rates weaken the impact of sales growth and operating cash flow on financial stability. Interest rates also significantly weaken the influence of the debt-to-asset ratio and liquidity on financial stability. However, interest rates can moderate the impact of leverage on financial stability.

Practical Implications: Insights from this research offer strategic recommendations for financial management and policy adjustments within the electricity sector in response to economic and interest rate fluctuations.

Originality/Value: This study contributes to the literature by providing sector-specific findings on financial dynamics and challenges faced by power generation and distribution companies in Pakistan. It sheds light on the moderating effect of interest rates on financial distress, offering valuable insights for practitioners and policymakers.

Keywords: *Financial Distress, Sales Growth, Cash Flow Operating, Leverage, Interest Rates, Firm Size, Earnings per Share (EPS)*