Impact of Liquidity Management on Profitability: With Special Reference to Listed Material Sector Companies in Sri Lanka

G. R. P. S. Waidyarathne[1] and R. P. C. Ranjani[2]
Department of Finance, University of Kelaniya, Sri Lanka[1,2]
piyumiwaidyarathna@gmail.com[1], chitra@kln.ac.lk[2]

ABSTRACT

Introduction - The ultimate goal of the companies is to enhance the wealth of the shareholders. Specially the liquidity and its management are caused to a great extent of the growth and profitability of a firm. The insufficient liquidity may unfavourable to the smooth operation of the firm as well as the additional liquidity can be disturbed to profitability. This research sought to establish the relationship between liquidity and profitability of listed material sector companies in Colombo Stock Exchange of Sri Lanka.

Design/Methodology/Approach - This research is based on 16 material sector companies listed in Colombo Stock Exchange over the last eight years from 2013 to 2020. In this research, the liquidity ratios and Cash conversion cycle are identified as independent variables with of Firm Size and Debt Ratio as control variables and profitability as dependent variable. Regression Analysis, Correlation Analysis, and Descriptive Statistics used as the analytical tools of this study. The data analysed using Econometric views (E-views)

Findings - Based on the regression estimates, the study revealed that the cash and quick ratio, payable outstanding and firm size has a significant positive impact on profitability while debt ratio has a significant negative impact on profitability.

Conclusion - The final result concludes that the overall model is statistically significant, and there is a positive relationship between liquidity ratios and a firm's profitability while the cash conversion cycle hurts profitability. And also, the debt ratio has a negative impact on profitability while firm size has a positive impact.

Keywords: *Liquidity, Profitability, Cash Conversion Cycle, Quick Ratio, Firm Size*