

Impact of Liquidity on Profitability: With Special Reference to Listed Manufacturing Companies in Sri Lanka.

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The ultimate goal of the companies is to enhance the wealth of the shareholders. For that purpose, the liquidity and profitability plays the vital and crucial role. That brings the problem that provided the basis for his research “how liquidity effects on profitability of listed manufacturing companies in Sri Lanka?” Especially the liquidity and its management affects to a great extent to the growth and profitability of a firm. The liquidity management becomes most important one as the inadequate liquidity may injurious to the smooth operations of the firm as well as the excess liquidity can be disturbed to achieve the greater profits. In this way, the present study is aimed to investigate the relationship between liquidity and profitability. The analysis is based on quarterly data of 20 manufacturing companies listed in the Colombo Stock Exchange over a period of past six years from 2010 to 2015. Return on equity and Return on assets were used as the dependent variables while Quick ratio, Current ratio and Liquid ratio were used as independent variable. Correlation and regression analysis as well as the descriptive statistics were applied in the analysis and findings suggest that there is a significant relationship exists between liquidity and profitability listed manufacturing companies in Sri Lanka. According to this study there has an influence in liquidity on the profitability of manufacturing companies.

Keywords: Shareholders, Profitability, Colombo Stock Exchange, Relationship