

## **Impact of Liquidity and Financial Leverage on Profitability of Industrial Sector In Sri Lanka**

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### **Abstract**

Liquidity and financial leverage are two of the important aspects that every business organization should manage in the best way. Proper management of these two aspects are very important to the performance of each company. This study investigates simultaneously the impact of liquidity and leverage on the profitability of Industrial sector listed companies in Sri Lanka. The literature indicates disparate findings everywhere in the world to the topic. Therefore, the impact of leverage and liquidity on profitability is an interesting research question to investigate. The sample of the study consists of 40 Sri Lankan listed companies. The sample includes listed Energy, Materials, Capital goods, Consumer Durables & Apparel, Household & Personal Products companies. The sample is selected based on market capitalization on March 20, 2020. This study uses secondary data extracted from the published financial statements of the selected companies for a period of five years, from 2015 to 2019. This study used panel data Regression analysis by the use of the E-Views software to investigate the impact of liquidity and leverage on profitability. It is found that Current ratio and Debt ratio indicate negative and significance relationships with ROE. Quick ratio and Debt to Equity ratio positively and significantly impact on ROE. Debt ratio and ROA indicates a negative and significance relationship. The results revealed that there is a positive relationship between Quick ratio and profitability and negative relationship between current ratio and profitability. There is a positive relationship between Debt to Equity ratio and profitability and negative relationship between Debt ratio and profitability. The findings will be practically important to the listed and non-listed companies and managers of those companies in determining proportions of liquidity and financial leverage ratios. This study contributes empirically and practically to the literature.

**Keywords:** Industrial sector, Leverage, Liquidity, Profitability, Sri Lanka.