

# IMPACT OF LIQUIDITY ON FIRM'S PROFITABILITY: A CASE OF LISTED MANUFACTURING COMPANIES IN SRI LANKA

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The major indicators of the financial performance of the corporate entities are liquidity and profitability. This study is also aimed at finding the impact of liquidity on profitability of listed manufacturing companies in Sri Lanka. The study used data from listed Manufacturing companies in Sri Lanka over a period of past 05 years from 2016 to 2020. Fifteen listed manufacturing companies were selected on random sample. The liquidity indicators are current ratio and Quick ratio. Return on assets (ROA) and Return on equity (ROE) were used as measures of profitability. Correlation coefficient analysis and regressions are used to analyze data. Financial markets should have a widely approved liquidity management procedures, practices and policy mechanisms and management should be accountable for suitably implementing these policies and strategies in priority basis. This study used recent literature to explore the gap in the existing literature. The results demonstrate that there is a positive and significant impact of liquidity and firm's profitability. The findings are more beneficial to finance decision makers of manufacturing companies for taking sound decision suitable tradeoff between liquidity & profitability. Overall this research can give recommendation for the manufacturing companies in Sri Lanka that pay more attention on the liquidity as they have the significant impact on the firm's profitability.

**Keywords:** *Liquidity; Manufacturing Sector; Profitability*

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