

**RELATIONSHIP BETWEEN THE ASSETS UTILIZATION AND
PROFITABILITY OF LISTED MANUFACTURING COMPANIES
IN SRI LANKA**



KANDE THALAPPULIGE HASHIKA MADHUSHI

1735



PCIV1735



Project Report
Library - EUSL

2016

ABSTRACT

In the asset management process firms' investment decisions take place very important role which is very essential guideline to indicate the management efficiency in investment in long term and short term assets. Therefore this study was carried out to find out the relationship between assets utilization and profitability of 25 listed manufacturing companies in Sri Lanka during the period of 2011 to 2015 (5 years).

Total assets turnover ratio, non-current assets turnover ratio and current assets turnover ratio used as independent variables to measure the assets utilization and return on capital employed ratio used as dependent variable to measure the profitability of this study. For the study purpose the data has been collected from the secondary sources i.e. from the annual reports of selected companies. Descriptive Statistics, correlation and simple regression are used to analyze the data.

The results revealed that total assets turnover ratio, non-current assets turnover ratio and current assets turnover ratio is positively correlated with profitability. Further, the results found that, total assets turnover ratio and non-current assets turnover ratio is significantly related with profitability and current assets turnover ratio is not significantly related with profitability of manufacturing companies.

Keywords: Assets Utilization, Profitability, Manufacturing Companies

TABLE OF CONTENTS

06 JUL 2017



Contents	Page No
ACKNOWLEDGEMENT	I
ABSTRACT	II
TABLE OF CONTENTS	III
LIST OF TABLES	VII
LIST OF FIGURES	IX
ABBREVIATIONS	X
CHAPTER -1: INTRODUCTION	
1.1. Background of the Study	1
1.2. Problem Statement	2
1.3. Research Questions	3
1.4. Objectives of the Study	4
1.5. Significance of the Study	4
1.6. Scope of the Study	5
1.7. Chapter Summary	5
CHAPTER -2: LITERATURE REVIEW	
2.1. Introduction	6
2.2. Assets Utilization	6
2.2.1. Importance of Analyzing Asset Utilization	8
2.2.2. Assets Turnover Ratio	8
2.2.2.1. Importance of Improved Asset Turnover Ratio	10
2.2.2.2. Total Assets Turnover Ratio	12
2.2.2.3. Non-Current Assets Turnover Ratio	12
2.2.2.4. Current Assets Turnover Ratio	13
2.3. Profitability	14
2.3.1 Profitability Ratios	15
2.3.1.1 Return on Capital Employed Ratio (ROCE)	16
2.4. Relationship between Assets Utilization and Profitability	18
2.5. Chapter Summary	20

CHAPTER -3: CONCEPTUALIZATION AND OPERATIONALIZATION

3.1. Introduction.....	21
3.2. Conceptualization	21
3.2.1. Assets Utilization	22
3.2.1.1. Total Assets Turnover Ratio	22
3.2.1.2. Non-Current Assets Turnover Ratio.....	23
3.2.1.3. Current Assets Turnover Ratio.....	23
3.2.2. Firms' Profitability.....	23
3.2.2.1. Return on Capital Employed Ratio (ROCE).....	24
3.3. Operationalization of Variables.....	24
3.4. Chapter Summary	25

CHAPTER -4: METHODOLOGY

4.1. Introduction.....	26
4.2. Study Setting, Design and Method of Survey.....	26
4.3. Study Population and Sample.....	26
4.4. Method of Data Collection.....	28
4.5. Hypotheses of the Study.....	28
4.6. Method of Data Presentation.....	29
4.7. Method of Measurement.....	29
4.8. Method of Data Analysis and Evaluation.....	29
4.8.1. Univariate Analysis.....	29
4.8.1.1. Descriptive Statistics.....	30
4.8.2. Bivariate Analysis.....	30
4.8.2.1. Correlation Analysis.....	30
4.8.2.2. Simple Regression Analysis.....	31
4.9. Chapter Summary	31

CHAPTER -5: DATA PRESENTATION AND ANALYSIS

5.1. Introduction.....	32
5.2. Data Analysis.....	32
5.2.1. Univariate Analysis.....	33
5.2.1.1. Descriptive Statistics Analysis.....	33
5.2.1.1.1. Descriptive Statistics for Total Assets Turnover Ratio.....	34

5.2.1.1.2. Descriptive Statistics for Non-Current Assets Turnover Ratio.....	35
5.2.1.1.3. Descriptive Statistics for Current Assets Turnover Ratio.....	36
5.2.1.1.4. Descriptive Statistics for Return on Capital Employed Ratio	38
5.2.2. Bivariate Analysis.....	39
5.2.2.1. Correlation Analysis	39
5.2.2.1.1. Relationship between Total Assets Turnover and Profitability	40
5.2.2.1.2. Relationship between Non-Current Assets Turnover and Profitability.	40
5.2.2.1.3. Relationship between Current Assets Turnover, and Profitability	41
5.2.2.2. Simple Regression Analysis	41
5.2.2.2.1. Regression Analysis for Total Assets Turnover Ratio on Profitability.....	41
5.2.2.2.2. Regression Analysis for Non-Current Assets Turnover Ratio on Profitability.....	43
5.2.2.2.3. Regression Analysis for Current Assets Turnover Ratio on Profitability.....	45
5.3. Summary of Hypothesis Testing.....	46
5.4. Chapter Summary	47
 CHAPTER -6: DISCUSSION	
6.1. Introduction.....	48
6.2. Discussion of the Descriptive Statistics.....	48
6.2.1. Total Assets Turnover.....	48
6.2.2. Non-Current Assets Turnover.....	48
6.2.3. Current Assets Turnover.....	49
6.2.4. Return on Capital Employed.....	49
6.3. Discussion on the Relationship between Assets Utilization and Profitability of Manufacturing Companies	49

6.3.1. Discussion on the Relationship between Total Assets Turnover Ratio and the Profitability of Manufacturing Companies	49
6.3.2. Discussion on the Relationship between Non-Current Assets Turnover Ratio and the Profitability of Manufacturing Companies	50
6.3.3. Discussion on the Relationship between Current Assets Turnover Ratio and the Profitability of Manufacturing Companies	50
6.4. Discussion of the Regression Analysis	51
6.4.1. Regression Analysis for Total Assets Turnover on Profitability	51
6.4.2. Regression Analysis for Non-Current Assets Turnover on Profitability ..	51
6.4.3. Regression Analysis for Current Assets Turnover on Profitability	52
6.5. Chapter Summary	52

CHAPTER -7: CONCLUSIONS AND RECOMMENDATIONS

7.1. Introduction	53
7.2. Conclusion	53
7.2.1 Conclusion for objective I	53
7.2.2 Conclusions for Objective II	53
7.2.3 Conclusion for Objective III	54
7.2.4 Conclusions for Objective IV	54
7.3 Recommendations	54
7.4. Suggestions for Further Research	55
7.5. Chapter Summary	55
REFERENCES	56
APPENDIX I: Data collected for the Study	60
APPENDIX II: Output for the Study	65