

**THE RELATIONSHIP BETWEEN WORKING CAPITAL
MANAGEMENT AND PROFITABILITY OF LISTED
MANUFACTURING COMPANIES IN SRI LANKA**



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ABSTRACT

Working capital is the most crucial factor for maintaining liquidity, survival, solvency and profitability of business. This study examines the relationship between working capital management and profitability of manufacturing companies. Population of interest constituted manufacturing companies listed on Colombo Stock Exchange and a sample of 20 firms were used. The collected secondary data from 20 companies covered the period from 2012 to 2016 was used to examine the relationship between working capital management and the profitability of manufacturing companies in Sri Lanka.

The components used to measure the working capital are cash conversion cycle, inventory conversion period, debtor conversion period and creditor conversion period. To measure the profitability, it has taken return on asset and gross profit margin. The study adopted both descriptive and quantitative research design. Descriptive Statistics, Pearson's Correlation are used to analyze the data. All these tests are used so as to correlate the theories contributed by the literature by several authors with the statistical results.

The study found out that, the major components of working capital management such as inventory conversion period has a weak negative relationship on the profitability. Relationship on inventory conversion period and profitability indicators were insignificant. Debtor conversion period has a weak negative relationship on the profitability. Relationship on Debtor conversion period and profitability indicators were significant. Creditor conversion period has a weak negative relationship on the profitability. And also, there is significant relationship with return on asset. Cash conversion period has a weak negative relationship on the profitability. Relationship on cash conversion period and profitability indicators were insignificant.

The sample is limited to CSE listed 20 manufacturing companies, and therefore the findings cannot be generalized to all firms. Improved working capital management policy could improve firm profitability by reducing the firm's CCC, thereby creating additional firm value. In addition, the results can be practically use for other purposes, including monitoring of firms by auditors, debt holders, and other stakeholders.

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