

Impact of Cash Conversion Cycle on Firms' Profitability (Special Reference to Listed Beverage Food and Tobacco Companies in Colombo Stock Exchange)

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The Cash conversion cycle, where the decisions about investments in accounts receivable and inventories and about acceptance of credit from suppliers. It is one of the most generally utilized estimations to evaluate the risks and returns associated with liquidity management. Every corporate organization is extremely concerned about how to sustain and improve profitability, hence they have to keep an eye on the factors affecting profitability such as inventory management, accounts receivables and also accounts payables. Consequently, the main purpose of the study is to identify the impact of CCC on firm's profitability with reference to the Beverage Food and Tobacco industry. The study is concerned about evaluating how CCC impact on the profitability of Beverage Food and Tobacco sector companies listed in CSE in Sri Lanka. The profitability was measured in terms of Return on Equity (ROE) and Return on Assets (ROA). The CCC was determined by Inventory Conversion Period (ICP), Receivable Conversion Period (RCP), and Payable Conversion Period (PCP). The study covering a sample of 14 Beverage Food and Tobacco companies and data were collected by concerning the time period from 2009 to 2017. Correlation statistical techniques and Panel data regression were used to analyze the relationship and impact the between CCC and the firm's profitability. Results revealed that ICP has a negative relationship and significant impact on the firm's profitability. Further RCP and PCP are positively impacted on ROE and ROA. Finally, overall CCC negatively correlated with the firm's profitability and has a significant impact on firm's profitability. Therefore, the study suggested that managers can create value for their shareholders by reducing the number of days of overall cash conversion cycle to a reasonable minimum.

Keywords: Cash conversion cycle, Return on assets, Return on equity, Working capital management