



A Study on the Impact of Liquidity Ratio on the Profitability: Insights from BSE Listed Manufacturing Firms

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Abstract: *The primary aim of companies is to increase shareholder wealth. Liquidity and profitability are critical in achieving this goal. Effective liquidity management is especially important, as it significantly influences a firm's growth and profitability. Proper liquidity management is essential because insufficient liquidity can hinder smooth operations, while excessive liquidity can impede the achievement of higher profits. This research explores the connection between liquidity and profitability by examining 30 manufacturing firms listed on the Bombay Stock Exchange (BSE) during the period from 2019 to 2023. Correlation and regression analysis, along with descriptive statistics, were implemented in the analysis. Our analysis reveals a positive correlation between liquidity and profitability ratios, though the regression results indicate that the relationship between these ratios is only partially influential. This research suggests that manufacturing companies should prioritize liquidity ratios due to their substantial effect on profitability.*

Key Words: *Liquidity ratio, Profitability ratio, manufacturing sector.*

1. INTRODUCTION:

Effective management of liquidity is crucial for any organisation that intends to fulfill its immediate financial commitments, encompassing short-term operational and financial costs as well as maturing long-term debt. To efficiently handle their liquidity, organizations use several ratios, including the current ratio, quick ratio, and acid test ratio. These metrics play a pivotal role in shaping the overall profitability of the business. Measuring the cash and near-cash with the payment commitments indicates that the business has sufficient liquid assets (cash, bank) to meet the payment schedule. Maintaining liquid assets within the firm entails an opportunity cost, as it may limit the potential for higher profitability (Niresh, 2012). One might say that the company's core is its management of liquidity. In the event that the firm's liquidity level is not maintained, managers will be unable to forecast their future. The company is regarded as sick if it is unable to turn a profit. However, if the company lacks capital, it will eventually collapse and die. According to Nzotta (2004), the liquidity needs of a firm are influenced by several factors, including the nature of the business or industry, operational efficiency, the size and scale of operations, the business cycle, manufacturing and operating cycles, turnover speed, profit margins, profit appropriation and depreciation policies, growth prospects, taxation policy, dividend policy, and government regulations.

Managers are the primary decision-makers within a company and must prioritize making informed and advantageous decisions. They need to take into account both immediate and future financial well-being, as short-term performance is essential for establishing a foundation for long-term success and sustainability. Managers are responsible for maintaining the smooth and efficient operation of the production cycle, addressing short-term financial obligations promptly, and improving profit levels to secure the firm's prosperity. Therefore, both insufficient and excessive liquidity can be detrimental to the company both now and in the future.



Manufacturing Sector in India

The automotive, engineering, chemical, pharmaceutical, and consumer durable industries are among the major drivers of India's manufacturing sector's economic growth. Before the epidemic, this industry contributed significantly, making up 16–17% of India's GDP. Its importance in promoting economic growth is highlighted by projections that show it will remain one of the fastest-growing segments. Technology is a creative catalyst in today's world, especially when it comes to the crucial role that digital transformation plays in achieving a competitive advantage in the rapidly evolving business environment of today. The Indian manufacturing industry is gradually moving towards automated and process-driven manufacturing, which is a calculated step that should increase productivity and efficiency.

The manufacturing sector plays a crucial role in driving the Indian economy, employing about 27.3 million people and accounting for 17% of the nation's GDP. By 2025, the government of India hopes to have 25% of the country's economic output come from the manufacturing sector, having set this goal through many programs and policies.

India has the most potential to create jobs and drive economic growth in the coming ten years by developing a manufacturing sector that is competitive on a global scale. Numerous factors are responsible for this potential, such as a strong power infrastructure, opportunities for long-term employment, and pathways for millions of people to develop their skills. The availability of raw materials, industrial know-how, and an entrepreneurial spirit have put India in a strong position to actively participate in global markets. These favorable circumstances set up India's manufacturing value chains for international success.

India's government measures are helping the country take steady steps towards adopting Industry 4.0. An important part of these efforts is the National Manufacturing Policy, which seeks to raise manufacturing's GDP share to 25% by 2025. Furthermore, in 2022, the Production-Linked Incentive (PLI) plan for manufacturing will be launched, marking a significant step towards aligning the core manufacturing industry with international norms. These calculated steps demonstrate India's dedication to developing a manufacturing sector that is competitive and aligned with changing global norms.

Growth of Manufacturing Industry in India

Aggregate Foreign Direct Investment (FDI) Equity Inflows into India's Manufacturing Sector from 2000 up to June 2023.

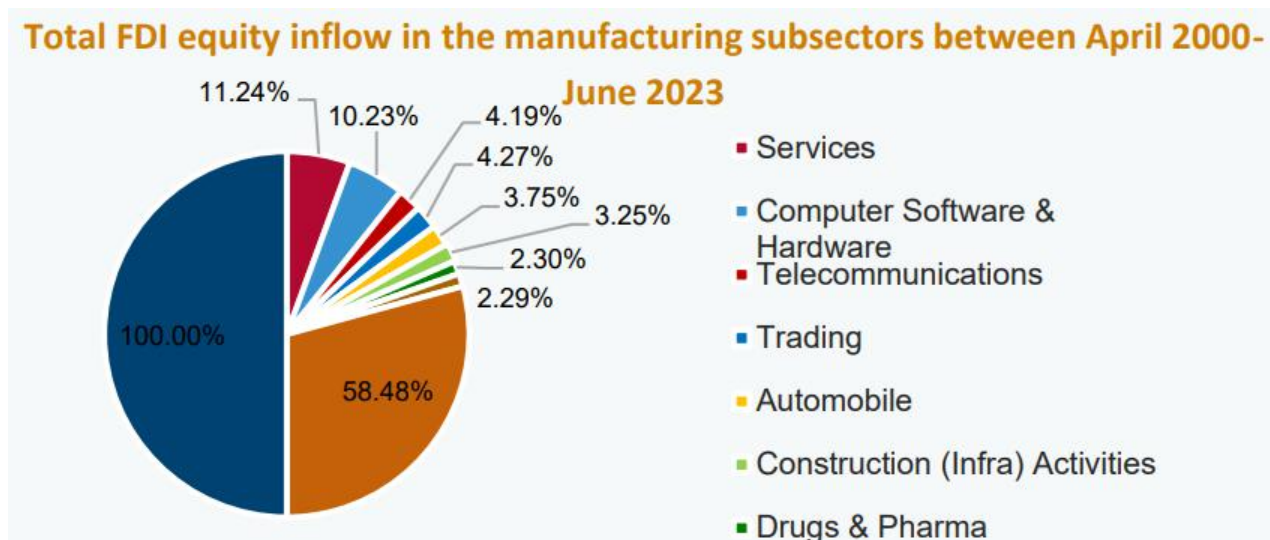


Figure 1: Total FDI equity inflows in the manufacturing subsectors.



The utilization of capacity, in the Manufacturing sector in India saw a significant comeback during the second quarter of FY22, as seen by the sector's 72.0%.

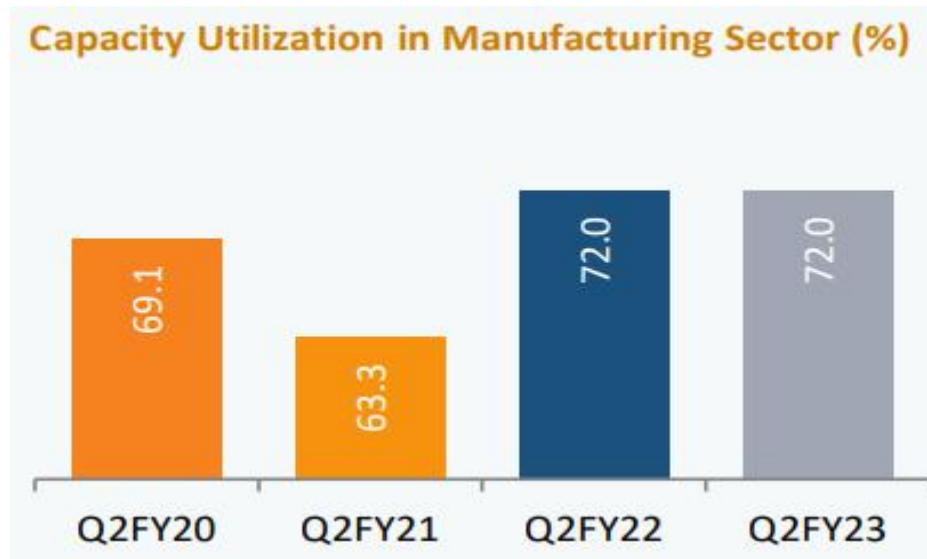


Figure 2 : Utilization Capacity in the Manufacturing Sector

Currently, India's manufacturing industry is benefiting from many factors that support its expansion and boost the country's economy:

1. **Robust Demand:** The manufacturing sector has performed well, recording the largest annual exports ever in FY23 (USD 447.46 billion). This shows a consistent demand for produced goods, growing by 6.03% from the previous year.
2. **Growing Investment:** The industry gains a competitive edge from reduced labor costs and a skilled labor pool. Increased merger and acquisition (M&A) activity and capital expenditure (capex) are attracted by this benefit. Consequently, there is a spike in manufacturing production, which raises the amount of goods exported.
3. **Policy Support:** Government initiatives such as the Production-Linked Incentive (PLI) schemes significantly support the industrial sector. For instance, in May 2021, a PLI scheme worth Rs. 18,000 crore (US\$ 2.47 billion) was approved to boost the development of advanced chemical cell (ACC) batteries, prompting substantial investments. Likewise, a PLI project authorized in September 2021 for the automotive and drone industries, valued at Rs. 26,058 crore (US\$ 3.53 billion), is designed to enhance production capacities.
4. **Competitive Advantage:** The manufacturing industry benefits from favorable developments such as increased M&A activity, government policy assistance, production capacity expansion, and investments from venture capital (VC) and private equity (PE). All of these elements work together to provide a strong foundation for future years of steady economic growth.

In conclusion, India's manufacturing industry is well-positioned to build on its advantages and leverage demand, investments, policy backing, and competitive advantages for sustained growth and economic development inside the nation.

2. LITERATURE REVIEW:

In our study, we have examined literature from both Indian and global perspectives. This approach will help us understand the various viewpoints and opinions regarding the implications of liquidity and profitability ratios across different industries.



Global Scenario:

Extensive research on the link between liquidity and profitability worldwide has yielded mixed results: some studies reveal a positive correlation, whereas others find no significant connection.

- Agbada and Osuji (2013) examined the relationship between Nigerian banks performance and the effectiveness of liquid management. Profitability and return on capital employed (ROCE) were adopted by the researchers as stand-in variables. Their research's conclusions show a statistically significant correlation between effective liquidity management and bank performance. They came to the conclusion that improved bank soundness results from effective liquidity management.
- Aliyu & Umar (2016) Examine how leasing financing affects the control of liquidity. Between January 2005 and December 2014, the study looked at a sample of six different companies. Multiple regression, descriptive, and correlation analysis were used to examine secondary data from yearly reports. These results suggest that the impact of lease finance on the liquidity of oil and gas businesses in Nigeria is negligible. Better lease finance for the oil and gas industry is suggested by the study.
- Alshatti (2015) analyzed how liquidity management influenced the profitability of Jordanian commercial banks from 2005 to 2012. The findings indicate that Jordanian commercial banks are more profitable when their fast ratio and investment ratio of accessible funds increase, whereas their profitability decreases when their capital ratio and liquid assets ratio increase. The article comes to the conclusion that banks should adopt a general framework of liquidity management to ensure sufficient liquidity for carrying out their operations more efficiently. It also states that banks should maximise the use of the available liquidity in various aspects of investment in order to increase bank profitability.
- Bassey and Moses (2015) using panel data from 2010 to 2012, investigate the trade-off between liquidity and profitability in Nigerian deposit money institutions. To estimate the variables, they used techniques known as Ordinary Least Squares (OLS). The study's conclusions showed that there is a statistically significant relationship between bank liquidity measures such as return on equity, loan to deposit, current ratio, liquidity ratio, and cash ratio. However, the relationship was found to be statically insignificant when the return on asset was utilized as a stand-in for profitability.
- Chamler et al. (2018) highlighted the impact of liquidity on profitability, revealing a positive relationship between bank profitability and liquidity. The research suggests that for banks to enhance their profitability, they must meticulously evaluate their liquidity.
- Etale & Bingilar (2016) examine the impact of liquidity management on the profitability of five food and beverage companies in Nigeria. The study, which spans the years 2011 through 2015, employs the cash ratio, quick ratio, and cash conversion cycle as proxies of liquidity and return on capital as a proxy for profitability. Multiple regression analysis and descriptive statistics were employed to examine the data gathered from the Nigeria Stock Exchange. The findings showed that the cash ratio and fast ratio had a positive, significant link with return on capital employed, whereas the cash conversion cycle had a negative, negligible relationship with return on capital employed.
- Kontus (2018) explored the interplay between profitability and liquidity levels as measured by net working capital and the cash to current liabilities ratio in 2014, focusing on small and medium-sized businesses as well as major corporations in the Republic of Croatia. However, the study did not offer any empirical support for the claim that liquidity and profitability are inversely correlated.
- Kurawa and Abubakar (2014) investigated the profitability of Nigerian banks was affected by liquidity. Using a systematic random sample approach, five banks were chosen between 2003 and 2012. Analysis using linear regression was used. The study's findings indicate that there is no discernible relationship between bank profitability and liquidity in Nigeria.
- Macaulay (2008), assessed how managing liquidity risk influences financial institutions in the US. According to his report, more than 70% of financial institutions nationwide have incorporated best practices. According to Macaulay, the fact that insufficient credit risk policies are the primary cause of serious issues in the majority of financial institutions has led to a rise in concerns about effective credit risk management. He concluded that maximizing an institution's rate of return is a necessary goal for an effective credit risk management strategy.



- Malik, et al., (2016) examine the way Pakistani private sector banks traded profitability for liquidity. Twenty-two private sector banks that were registered with the State Bank of Pakistan between 2009 and 2013 were the subjects of the study. We used Ordinary Least Squares (OLS) to specify and estimate three models. The empirical findings showed a statistically significant correlation between return on assets and bank liquidity measures.
- Noor & Lodhi (2015) analyze the effect of liquidity ratios on the profitability of Karachi's automotive sector from 2010 to 2014, focusing on five publicly listed automotive companies. Firm Performance serves as the dependent variable, while the current ratio and quick ratio are the independent variables. The study finds a negative correlation between profitability and liquidity.
- Ofoegbu et al. (2016) examine the profitability and liquidity management of Nigerian pharmaceutical manufacturing firms from 2000 to 2011. Utilizing multiple regression analysis, the study focused on three pharmaceutical companies. It reveals that while the accounts receivable ratio shows a negative and insignificant relationship with profitability, both the debt ratio and sales growth exhibit a positive and significant connection with profitability.
- Safdar et al (2016) tend to respond to the query, "What matters?" The profitability or liquidity of Pakistan's sugar industry, conducted on 36 sugar mills, which were 43% of the entire population, were chosen. The data was examined using multiple regression approaches, descriptive statistics, and correlation matrices. The current ratio, quick ratio, inventory turnover ratio, current asset turnover ratio, and average collection period are used as proxies for liquidity in this study. Return on equity, return on assets, and return on capital employed are used as proxies for profitability. The outcome shows that there is a substantial positive correlation between profitability and liquidity proxies.
- According to Salim and Bilal (2016) the impact of liquidity management on the financial performance of the banking industry in Oman. It found no significant correlation between the liquidity position and the net margin of Omani banks. Nonetheless, significant associations were seen between bank loans, customer deposits to total assets, loans to short-term liabilities and deposits, and return on assets.
- Ware (2015) carried out a study to investigate the connection between liquidity management and profitability for businesses listed on the Ghana Stock Exchange in difficult economic times. Regression analysis, descriptive statistics, and a correlation matrix were used to examine secondary data from financial statements that were gathered between 2005 and 2009. The return on equity is employed in this research as a dependent variable and a measure of profitability, while the cash conversion period, average collection period, and average payment period are used as measures of liquidity. The results of the analysis indicate that there isn't a statistically significant relationship between profitability and liquidity proxies.

Indian Perspective:

- Amalendu Bhunia 2013 This study looks at how liquidity management influences the profitability of 100 small to medium-sized privately held steel firms in India between 1998 and 2012. The study uses CMIE Prowess database for data collection. Throughout the analysis, descriptive statistics and regression analysis approaches are used. The empirical findings show a strong liquidity position and a substantial connection. For a comparison analysis, the study employs liquidity and profitability metrics.
- Ashraf (2012) in his study highlighted the relationship between liquidity and profitability for 16 Indian companies listed on the Bombay Stock Exchange (BSE) from 2006 to 2011. This analysis made use of accounting ratios and included descriptive analysis and regression testing. Except for their magnitude, the empirical results show a significant negative link between working capital management measures such as indebtedness and the profitability of these organisations. Furthermore, the study discovered a favorable association between a company's size and its profitability.
- Panigrahi et.al, (2018) in their study examine the fascinating interplay between liquidity and profitability in the context of five pharmaceutical companies from 2011-12 to 2015-16. Our major goal is to determine if these organisations can achieve a healthy balance between financial growth and liquidity preservation, or if they must navigate the perplexing trade-off of sacrificing liquidity in pursuit of higher earnings. The outcomes were consistent with the theoretical perspectives, i.e. both are negatively associated. However, there are examples such as Wal-Mart



that can create profit and increase shareholder value with negative working capital, i.e. an example of sacrificing liquidity to maximise profits.

- Sandhar et. al (2013) The study examines the dynamic relationship between liquidity and profitability in a select group of Indian cement producers. It revealed an intriguing surprise when viewed through the lens of regression analysis: the current ratio, liquid ratio, and cash turnover ratio displayed an unusual negative association with both return on assets (ROA) and return on investment (ROI).
- Mohmad and Syed (2016) scrutinized the intricate balance of liquidity and profitability within our chosen company set, with a specific focus on evaluating and contrasting their performance. The findings illuminated a substantial disparity in the performance of pharmaceutical companies, particularly when assessed through the Quick Ratio. In this regard, it became evident that Cipla outshone Dr. Reddy's Labs in terms of profitability.
- Geethalakshmi and Jothi (2016) primarily aims to gauge the financial performance of pharmaceutical companies, with a specific focus on Cipla and Dr. Reddy's Laboratories, during the time frame from 2006-2007 to 2015-2016. The analytical instrument employed for this investigation is the DuPont analysis. The results of the analysis revealed that Cipla's pharmaceutical division achieved the most robust returns on equity (ROE) and return on investment (ROI), standing at 34.18 and 0.19, respectively. Dr. Reddy's Laboratories, in contrast, posted an ROE of 25.43 and an ROI of 0.18.
- Tripathy and Uzma (2020) this study investigates the increased demand for corporate liquidity and dives into the many aspects influencing firm cash reserves in India. Following the financial crisis, which put corporations under tremendous liquidity strain, the financial strategy of keeping cash reserves gained significance. The study endeavors to explore the pivotal factors influencing cash management in the unique context of India. By doing so, it aims to provide valuable insights for both business managers and academics, shedding light on the application of fundamental theories of cash management in the dynamic and growing landscape of India.
- Mathew and Sindhuja (2021) grasp the importance of striking a harmonious equilibrium between a company's profitability and its liquidity status in order to attain the most widely recognized financial performance. The conclusion highlights that the current ratio and liquid ratio exhibit a positive relationship with the profitability of manufacturing enterprises in Kerala, whereas the cash conversion period shows a negative association. As a result, a more realistic credit strategy that generates a shorter cash conversion period (CCP) would improve the overall liquidity situation, which would benefit the company's profitability.
- Singh and Pandey (2008) argued that fixed and current assets are important for the proper operation of any company organisation, and working capital management is critical since it has a direct impact on profitability and liquidity. They investigated the working capital components and discovered that working capital management had a major impact on Hindalco Industries Limited's profitability.
- Niresh (2012) the research set out to explore the intricate interplay between profitability and liquidity. Results unveiled a nuanced connection between the variables, exhibiting both positive and negative associations. Notably, the current ratio demonstrated an adverse correlation with net profit and return on capital employed, while showcasing a favorable relationship with return on equity. Conversely, the quick ratio exhibited a positive correlation with net profit and return on capital employed, yet displayed a negative association with return on equity.
- According to Farhan et al. (2019) liquidity ratios affect the financial performance of Indian pharmaceutical companies, revealing robust financial standings among these companies. The research revealed that corporate governance plays a pivotal role in moderating the connections between the current ratio, quick ratio, and net operating margin. While the influence of liquidity ratios on firm performance has been extensively explored and the existing literature is substantial, this study introduces a fresh perspective by highlighting corporate governance as a key moderating element.
- Mohanty and Mehrota (2018) in their article, he undertakes a modest exploration of the interplay between liquidity and profitability within 28 small and medium enterprises (SMEs) listed and traded on the Bombay Stock Exchange from 2011 to 2016. The findings of the aggregated regression analysis indicate a notable impact of liquidity management on the profitability of the chosen SMEs. Additionally, the results reveal a negative correlation between measures of profitability and the explanatory variables in the selected SMEs.
- Syed Azhar (2015) the research identified noteworthy influences on profitability within the chosen sample utilities, with the debtor's turnover ratio, collection efficiency, and interest coverage ratio demonstrating a substantial impact.



In contrast, the quick ratio, absolute liquid ratio, and creditor's turnover ratio exhibited negligible effects on profitability.

- Dr. Ashok Panigrahi (2019) these discoveries are particularly intriguing as they suggest diverse correlations between liquidity and profitability across various industries. Moreover, these relationships could vary not only between industries but also potentially across different countries. The author questions conventional financial wisdom by claiming that there is an inherent inverse link between liquidity and profitability. The thesis, as illustrated by the case of Ajanta Pharma, asserts that an organization can increase its profitability while preserving its liquidity, dispelling the assumption of a necessary negative link between the two.
- According to Jain and Jain (2020), this research uses Ordinary Least Squares regression to analyze how various factors impact profitability, with ROA and ROE as the dependent variables. Solvency (Debt Equity Ratio), liquidity (Current Ratio and Quick Ratio), and efficiency (Finished Goods Turnover Ratio) are the independent variables. The results reveal that while solvency and efficiency do not significantly affect profitability, liquidity has a major impact on it.

3. RESEARCH OBJECTIVE:

- Unveiling the impact of liquidity ratios on the profitability of chosen manufacturing firms as per the S&P BSE India.
- To determine the key relationship between liquidity ratios and profitability in selected publicly traded manufacturing companies.

HYPOTHESIS OF THE STUDY:

H1- There is a significant impact of liquidity ratios on profitability.

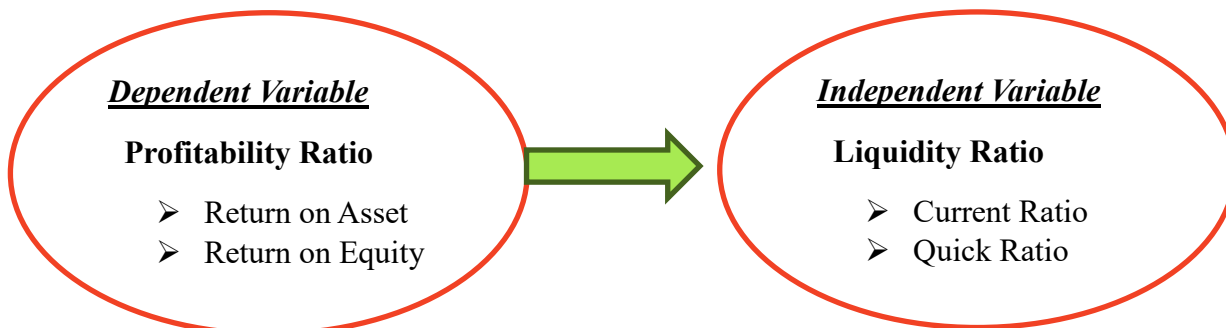
H2- There is a significant relationship between liquidity ratios and profitability.

4. RESEARCH METHODOLOGY:

- Research Layout: A quantitative technique is used in this study and is analytical in nature.
- Data Collection: The study takes into account the data of 30 Manufacturing Companies as per the S&P BSE India as on the date 26th October 2023
- Period of Study: The time duration in our study is Five years i.e., 2019 to 2023.
- Statistical Tools used in the Study: The analytical technique will be an overview of how liquidity ratios affect profitability. To arrive at accurate conclusions, data must be analysed and interpreted using appropriate analysis procedures. The study employs Descriptive Statistics, Correlation, Regression, and ANOVA techniques to assess how liquidity ratios influence profitability ratios.

CONCEPTUAL FRAMEWORK:

Evaluating liquidity focuses on two main metrics: the current ratio and the quick ratio. Additionally, this study examines two profitability indicators: Return on Assets and Return on Equity. In this analysis, liquidity ratios are considered independent variables, while profitability ratios are analyzed as dependent variables.



**DATA ANALYZING:**

Descriptive statistics, which include both central tendency and dispersion measures, provide an overview of the dataset. Central tendency indicators such as the mean, median, and mode are used to summarize the data, while measures of dispersion, including standard deviation and variance, describe the spread of the data.

Table 1: Descriptive Statistics

Variables	No. of observations	Range	Minimum	Maximum	Mean	Standard Deviation
Current Ratio (C.R)	150	8.11	.45	8.56	1.9393	1.53733
Quick Ratio (Q.R)	150	8.00	.21	8.21	1.4217	1.33808
Return on Asset (ROA)	150	74.81	-11.64	63.17	11.7267	10.50108
Return on Equity (ROE)	150	142.76	-39.64	103.12	20.3059	21.64318

Source: SPSS

Table 1 illustrates the descriptive statistics for both liquidity and profitability ratios. In the above table the no. of observation is 150 with two dependent variables. The descriptive statistics reveal that, during the study period, the average values for profitability metrics like Return on Equity and Return on Assets were 20.3059 and 11.7267, respectively. Meanwhile, the average values for the current ratio and quick ratio were 1.9393 and 1.4217, respectively.

Table 2: Model Summary (Dependent variables- ROA and ROE)

Model	R	R Square	Adjusted R square	F- Statistics
ROA	.605	.366	.358	8.41692
ROE	.293	.086	.073	20.83308

Table 3: Dependent Variable ROE

Independent Variable	B	Std. Error	t	Sig.
(Constant)	16.477	2.885	5.711	.000
C.R	-6.140	3.931	-1.562	.120
Q.R	11.069	4.516	2.451	.015

The outcome of Current ratio on ROE is ($t = -1.562$ and $p = 0.120$) which shows that it is insignificant, whereas the outcome of Quick ratio on ROE is ($t = 2.451$ and $p = .015$) which shows that the result is significant.

Table 4: Dependent Variable ROA

Independent Variable	B	Std. Error	T value	Sig.
(Constant)	6.692	1.166	5.740	.000
C.R	-3.940	1.588	-2.481	.014
Q.R	8.916	1.824	4.887	.000

The impact of Current Ratio on ROA is ($t = -2.481$ and $p = 0.014$) whereas, the impact of Quick Ratio on ROA is ($t = 4.887$ and $p = 0.000$) which shows a significant relationship between return on asset.

**Table 5: Correlation**

Variables	Current Ratio	Quick Ratio	Return on Asset	Return on Equity
Current Ratio	1.00			
Quick Ratio	0.959 (0.000)	1.00		
Return on Asset	0.513 (0.000)	0.583 (.000)	1.00	
Return on Equity	0.220 (.007)	0.266 (.001)	0.839 (.000)	1.00

Correlation analysis uncovers a meaningful connection between the independent and dependent variables. Correlation analysis is employed to assess the strength of the relationship between two variables. The table above indicates that the relationship between the quick ratio and Return on Assets (0.000) is significant. Additionally, the relationship between the quick ratio and Return on Equity (0.001) is also significant. The correlation between current assets and Return on Assets is 0.000, while the relationship between current assets and Return on Equity is significant, with a correlation of 0.007.

Table 6: ANOVA (Dependent Variable: ROA)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	6016.483	2	3008.241	42.463	.000 ^b
Residual	10414.160	147	70.845		
Total	16430.642	149			

Dependent Variable: ROE

Predictors: (Constant), Q.R, C.R

The statistical significance of our model is indicated by the F value of 42.46 and P-value of 0.000 in the table. P-values that are approved should be smaller than 0.05. The table presents a P-value of less than 0.05, indicating a substantial impact of the studied data. This suggests that the models for liquidity ratios are fitted. This suggests that the ROA can be predicted by the liquidity ratio.

Table 7: ANOVA (Dependent Variable: ROE)

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	5995.115	2	2997.557	6.907	.001 ^b
Residual	63800.546	147	434.017		
Total	69795.661	149			

Dependent Variable: ROE

Predictors: (Constant), Q.R, C.R

The value of the ANOVA in Table 6 indicates the overall magnitude of this regression study. The table indicates that the F value of 6.907 and P-value of 0.001 indicate the statistical significance of our model. P-values that are approved should be smaller than 0.05. The table presents a P-value of less than 0.05, indicating a substantial impact of the studied data. This suggests that the models for liquidity ratios are fitted. This suggests that the ROE can be predicted by the liquidity ratio.



5. CONCLUSION:

The effect of liquidity on profitability is a multifaceted relationship that assumes a pivotal role in the financial health of companies. Effective liquidity management ensures that a company has the necessary resources to meet its short-term obligations while optimizing its operational efficiency. A sufficient liquidity position can enhance profitability by enabling firms to take advantage of profitable opportunities, reduce the cost of capital, and avoid financial distress. However, excessively high liquidity can sometimes indicate underutilized assets or missed investment opportunities, potentially limiting profitability. Therefore, it is essential for companies to strike a balance between maintaining adequate liquidity and investing in growth initiatives.

In our study, we have analysed a favorable relationship between liquidity and profitability ratio whereas the regression result shows that there is partial impact of the liquidity and profitability ratios. Overall, understanding and managing liquidity effectively can lead to improved profitability by ensuring financial stability and operational flexibility. Companies that successfully navigate this balance are better positioned to achieve sustained financial performance and long-term success.

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