

Impact of Cash Conversion Cycle on Firm's Profitability: With Special Reference to Beverage Food and Tobacco Sector

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Cash Conversion Cycle (CCC) is the most widely used evaluation method to measure the risks and returns associated with liquidity management and profitability. Therefore, the main purpose of the study is to identify the impact of CCC on profitability selected companies in Sri Lanka. The profitability of companies was measured in terms of Return on Equity (ROE) and Return on Assets (ROA) and the CCC was measured by Inventory Conversion Period (ICP), Debtor Conversion Period (DCP), and Payable Conversion Period (PCP) taking into account the financial data for two years period from 2015 to 2016. According to the findings of the regression, ICP shows the impact on profitability of firms (ROE: $\beta = .072$, $P = .000$, ROA: $\beta = .001$, $P = .000$). The results indicated that if ICP increase, from one day ROE and ROA increased by 0.072 and .001 when other variables are constant. DCP also have impact on profitability (ROE: $\beta = 126.377$, $P = .000$, ROA: $\beta = 0.124$, $P = .021$). That indicates that if DCP increase, from one day ROE and ROA increase by 126.377 and 0.124 when other variables are constant. PCP also have impact on profitability (ROE: $\beta = -243.843$, $P = .039$, ROA: $\beta = -1.605$, $P = .046$). In turn if the PCP decrease, from one day ROE and ROA decrease by -243.843 and -1.605 to the extent other variables are constant. By considering the results revealed that ICP and DCP has positive strong relationship with the profitability. Further the study found that the PCP are negatively affected to the ROE and ROA. According the study reveals that CCC negatively correlated with the profitability and CCC has significant impact on profitability. These results suggested that managers can create value for their shareholders by reducing the number of days of account receivables and inventories to a reasonable extend.

Keywords: Cash conversion cycle, Return on assets, Return on equity