

ABSTRACT

After the global financial crises and increased competition the business world has become more cautious and has started paying more attention towards the importance of the corporate liquidity all over the world. As we know that liquidity has its great impact on the performance of any business so, keeping an optimal level of liquidity is of grave concern for the financial managers these days. In this study we have investigated the empirical relationship between the corporate liquidity and profitability for a sample of 18 cement manufacturing companies listed on stock exchange of Pakistan over 2005-2012 periods. The fixed effect model has been used to estimate the regression. Current ratio, quick ratio, cash conversion cycle and natural logarithm of sales as a size variable are used as a measure of liquidity and net operating income is used as a measure of profitability. The findings of this study suggest that CCC is the most important variable that showed a significant and negative impact on the net operating income of the cement manufacturing companies of Pakistan. In addition to that the size variable also showed a significant but positive relationship with net operating income. Hence, the financial managers, by shortening the cash conversion cycle and carefully managing each component of CCC can create value for the company in terms of increased profitability.

JEL classification: M41, G39, E41

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