

**IMPACTS OF LIQUIDITY RATIOS ON
PROFITABILITY
(A STUDY OF AUTOMOBILE COMPANIES
OF PAKISTAN LOCATED AT KARACHI)**

By

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<u>NO.</u>	<u>Date</u>	<u>Place Of Meeting</u>	<u>Topic Discussed</u>	<u>Signature of Student</u>
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6	12-11-2015	Office	Critical Debate	Natasha
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ABSTRACT

PURPOSE:

The purpose of this research study is to investigating the impact of liquidity ratios on profitability of the selected automobile companies of Pakistan located at Karachi for the time period (2005-2014).The important financial indicators of corporate entities are liquidity and profitability. Liquidity ratios are used to evaluate the performance of a firm to overcome its short term obligations in a specific time period. The higher the current ratio the greater the margin of safety for short term maturing obligations. While profitability ratio is used to judge the performance of the organization that its efficiently utilized resources of a business.

METHODOLOGY:

The descriptive and explanatory research includes the 10 years data is taken from the 'Annual Reports and Accounts' of the two selected automobile companies of Pakistan located at Karachi. The independent variables firm Cash, QR and CR are tested in order to check their impact on the dependent variable profitability NI,ROA and ROE. The "quantitative research design is adopted for this research study. Thepopulation size consists of three automobile companiesofPakistan. However, we have taken two automobile companies which are located at Karachi due to availability of data. The secondary data is collected from the "Annual Reports and Accounts" to compute liquidity and profitability ratios of the two selected companies. Simple correlation analysis is used to test the hypothesis at 5% level of significance.

FINDINGS:

The overall findings of this study indicate that:

PAK SUZUKI MOTORS:

- The independent variable Cash, QR and CR are insignificant impact on NI.
- The independent variable QR and CR are insignificant impact on ROA on the other hand cash has significant correlation with ROA.
- One dependent variable QR is insignificant effect on ROE while the remaining cash and CR are significant. It shows that they have major effect on ROE.

INDUS MOTORS:

- The Indus Motors results also show that the dependent variable NI, ROA and ROE have no significant effected by three independent variables Cash, QR and CR.

PRACTICAL IMPLICATIONS:

This research results will be constructive for the financial advisors, suppliers, stakeholders, shareholder and employees of the automobile companies in order to develop efficient decision with respect to liquidity management which will instantly affect the profitability of the firm. The results also assist investors to have a comprehensive intuition of the quantitative investigation of the company. In the liquidity position every stakeholder has some concern in a firm. Suppliers of goods has high interest in a liquidity position of a firm before selling on credit. Employees is also make assured about the company's liquidity situation in order to understand whether the company can pay its employee related obligations salary, pension and provident fund etc.

Adequate liquidity position should be maintained by a firm because its some portion will be distribute amongst the shareholders. liquidity and profitability are well matched because one increases the other decreases.

KEY WORDS: *Liquidity ratios, Net Income , Return on equity, Return on Assets,*

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