

The Cash Conversion Cycle and Profitability: A Study of Beverage, Foods and Tobacco Sector in Sri Lanka

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M. Ravindran^{1(*)}, S. Anandasayanan¹

¹*Department of Financial Management, University of Jaffna, Sri Lanka*

(*) E.mail: mithuravi95@gmail.com

The cash conversion cycle (CCC) is simply defined as the time taken to convert its investments in inventory and other resources into cash flows from sales. The study is carried out based on a sample selected using simple random sampling method and included 17 beverage, food and tobacco companies listed in Colombo Stock Exchange in Sri Lanka for the period from 2011–2018. CCC is considered as the independent variable. Measures such as profitability return on assets (ROA) and return on equity (ROE) are considered as the dependent variable. Firm size and sales were considered as control variables for the study. Based on the pooled OLS regression analysis using E-views 8 application, it was evident that CCC has significant negative impact on ROA and insignificant impact on ROE for beverage, food and tobacco companies in Sri Lanka. Firm size shows a significant negative impact on ROA and firm sales has a insignificant impact on ROA. Since CCC has a significant impact on profitability of the companies, it is important to the management to effectively maintain the optimal level of CCC.

Keywords: Cash conversion cycle, return on assets, return on equity, beverage, food and tobacco companies