

Impact of Liquidity on Profitability of the Firm: An Empirical Study on Select Pharmaceutical Companies in India

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Abstract

Liquidity and profitability both run simultaneously and are very important from the viewpoint of any firm and it is important to maintain a balance between these two for the proper conduct of business. The present study is conducted to evaluate the trade-off between profitability and liquidity of select pharmaceutical companies in India. In the present study top ten pharmaceutical companies have been taken as a sample and the secondary data for 10 financial years have been collected. The researchers selected ROCE as the proxy of profitability, on the other hand, DV, CV, IV, CR, log of Total asset (LTA), and log of total sales (LTS) have been taken as the proxy of liquidity. To conduct the study firstly the researchers run the Hausman test to choose which regression model is suitable for the present study. They found that the fixed effect regression model is appropriate as the calculated value of the Hausman test is lower than 0.05. The study revealed that LTA and LTS have huge impact on the profitability of the firm while the other variables do not have much impact on profitability. Besides this, the researcher found that the probability value of all the variables was significant even at a 1% level of significance except in the case of DV.

Keywords: *Liquidity, Profitability, Pharmaceutical Companies.*

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