

Impact of Liquidity on Profitability in Sugar Sector of Pakistan

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Abstract

The main purpose of this study is to analyze the impact of liquidity on the profitability in sugar sector of Pakistan. The data were collected from the annual reports of the listed sugar mills in Pakistan, for the period of 2007-2012. For the purpose of analysis we used SPSS; the results are derived by applying the correlation and multiple regression analysis. Correlation results show that there is strong positive relationship between all variables. According to the regression analysis all the alternate hypothesis are accepted because inventory, cash, account receivable are significant at 5% level of significance. So, the results show that firms must utilize its liquidity in best way in order to improve the profitability because liquidity variables play significant role towards improving the profitability of sugar sector in Pakistan.

Keywords: Cash, Account receivables, Inventory, Sugar industry of Pakistan, Profitability

Introduction

Liquidity is the amount of capital that is available for investment and spending. Most of the capital is credit rather than cash. That's because the large financial institutions that do most investments prefer using borrowed money. Even consumers have traditionally preferred credit cards to debit cards, checks or cash. High liquidity means there is a lot of capital. That usually happens when interest rates are low, and so capital is easily available. Low interest rates mean credit is cheap". "Profitability - making more money than you spends, or put another way, revenue less expenses. But which revenues and which expenses should you include, and when to include them is not at all clear when we take a closer look at any business, and its customer behavior" We are going to conducting a research is impact of liquidity on profitability in sugar sector of Pakistan.

Liquidity and profitability are some of the mainly studied concepts of financial management inside the area. The contact among these two variables was seen by many economists as over Pira (1985). For the purpose of improving the profitability the better management of liquidity is important. Liquidity in term of cash or near cash assets effects in the profitability of all organizations. Saleem et al. (2010) investigate that the better management of liquidity is very vital for each organization that purpose to give current obligations on business. so that for this purpose the liquidity management in in term of cash ratio, current ratio and liquid assets ratio that effect on the profitability of every organization the liquidity ratios are used. So that all business needs to have some liquid assets in term of cash, bank to meet their payment obligations .liquidity ratio used in term of cash and near cash assets these assets called current assets in this way through current assets ratio liquidity impact on the profitability of sugar industries.

Liquidity impact the profitability in term of cash, liquid assets. Account receivable also effect on profitability in term of liquidity .The liquidity in term of account receivable negatively effect of profitability in sugar sector of Pakistan. Abbas (2006) said that liquidity impact on the profitability in sugar sector of Pakistan. According to this the liquidity impacts on profitability in this sector in term of cash liquid assets.

Profitability of any sector shows its effectiveness. In this way the liquidity variables in term of cash effect on the profitability in sugar industry. Habiba (2006) her research also analyses the liquidity impact on the profitability of sugar industry in Pakistan. She used the account receivable, cash as a liquidity variable and sees the impact on sugar industry profitability. She also analyses that these variables affect the sales of industries of sugar in Pakistan.

There are many researches have been done on this topic of sugar industries in different countries like India. But we are conducting this research in the context of Pakistan .According to farooqi et al (2010) they analyses the relationship between liquidity and profitability and they analyze that it is necessary to investigate for every organization even they perform their daily operations. Anything that is used in a business is called capital. For increasing capital liquidity play important role. Because if a firm does not has liquid assets, it cannot meet its obligations. So it's most important for sugar sector as well as all organization .This result shows that there is significant impact of liquid ratio on profitability.

Liquidity management is helpful for increasing the profit of the sugar industries in Pakistan. If the firm better utilizes its liquidity than it is helpful for increasing the profitability. According to Pandey (2005) liquidity and its management shows the growth of firm. Because if liquidity increased or decreased, it effects on the operations of firm. The results analyses the current ratios and liquid ratios are used as an independent variables

and positively associated with the profitability. If a company has good liquidity structure it may be a competitive edge on other firms.

Sometimes liquidity effect positively and negatively on profitability in sugar sector of Pakistan. if liquidity is lower than it leads to negative profitability .And better liquidity leads to higher profitability.so, liquidity help for improving the profitability position of any sugar sector of Pakistan. Kim (2005) said that firms with lower liquidity refer to negative profitability.in this way the importance of liquidity in profitability in sugar sector is most important because good liquidity leads to better profit are higher profit in sugar sector industries show the good performance of these industries.

It is necessary that organization need to better utilization of resources .In this way these resources helpful on improving the profitability of firm in sugar sector of Pakistan. Myer et al. (1984) introduced Pecking order theory. Pecking order says that a firm prefers to use its Liquidity resources do the possible utilization of the possible mount of these sources that help to check the profitability. Different researchers do research on this topic .There are different research have been done on the topic in different countries. But we are conducting a research in Pakistan of this dominant sector.

For financial manager liquidity is most important variable. Irfan Ahmed (2010) the need of liquidity is among these sectors is most important to take the financial decisions by the financial manger to improve the performance in this sector. Because it's openly affects the profitability and is measured one of the most important parts of financial decision making.

Net working capital also affects the profitability in sugar sector of Pakistan.net working capital effect the productivity of sugar sector. Haq et al. (2011) he also define about the liquidity, cash, net working to improve profitability in this sector. Networking capital refers the excess of current assets over current liabilities of a firm. It shows the strength of the business and its liquidity position. It means if more the working capital more the liquidity of the firm.

The excess of liquid assets sometimes leads to improve the profitability. Horn (2005) we may be enduring or temporary. Working capital refers the excess of current assets. So these current assets use to meet current liabilities and also improve the profitability. According to Raheman et al. (2007) Management of current assets IS necessary to meet up with short term obligations of the company. Objective of these assets management to make sure that firm fulfill the operating requirements and also stay in a situation to pay short term debt when the fall.

Our research topic is impact of liquidity on sugar sector of Pakistan. Because sugar sector is contribute in GDP more than other sectors. We define this topic according to different researcher's point of views Siddique et al. (2009) said in his research is that after the division of India two sugar mills were in the custody of Pakistan. So, in Nov, 1964 Pakistan sugar mills association was established which main purpose is to improve the efficiency by analyzing the impact of liquidity on the profitability in sugar sector of Pakistan.in our topic we use the liquidity as an independent variable and check its impact on profitability in sugar sector of Pakistan.

The research which we are conducting implemented practically because it's related with finance. It's useful for finance manager for performing their practical operations like accounts making. On the basis of this research the financial manager make good financial decisions. So, this research will be helpful for managers how to maximize the profit of firm and compete with their competitors. In this way manager can get advance knowledge through research. Our study is also helpful for the investors to check the position of company .Because if firm liquidity position is best it is helpful for investors to do investment.

Research gap

Already this research is done in context of other countries but I have done this research in Pakistani context and find the impact of liquidity on profitability of sugar sector in Pakistan.

Problem statement

This study is done to find the impact of liquidity on profitability in sugar sector of Pakistan. We also have to check that to what extent sugar sector profitability is affected by liquid assets uses.

Objectives

Major objective of this study is to conduct a research and find the impact of liquidity ratios on profitability of sugar sector in Pakistan.

The other objective of study is

To explore the major factors of relationship between inventory and profitability

To find out the impact of cash and debtors on sugar sector profitability in Pakistani context.

Literature Review:

Before going on to the hypothetical literature review I would like to define the main variables of this study. So, Profitability is the main shape of measuring the economic success of a firm. This economic success is determined by the amount of the net accounting profit .Liquidity is the amount of capital that is available for spending as well as for investment. Most of the capital is credit rather than cash. So, liquidity impact on the profitability of firm. Liquidity may be increase or decrease the firms' profitability. If firm have high liquidity

than it show strong capital and profitability position of company. So, for strong position of company liquidity play its important role .It's important for financial manager to know your liquidity position. Anything that is used in a business is called capital. For increasing capital liquidity play important role. So it's most important for sugar sector as well as all organization.

The profitability and liquidity both are positively associated with each other. The cash conversion cycle, account receivables, current asset ratio these all are impact on profitability of firms in sugar sector of Pakistan in a positive, negative or moderated way. So, liquidity and profitability both are related with each other. Because if one increases the other decreases. When manger have a strong liquidity position then he can better utilize it for improve the organization profitability and performance. Shim (2000) he said that liquidity and profitability are most important factor that are depend each other and both most important for showing the financial position of company and these two variables are positively related with each other, in this way these variables also positively improve the performance of sugar industry in Pakistan. Moreover, a firm that has low profitability and high liquidity does not generate sufficient resources to finance expansion of its working capital needs, acquiring new assets, overdue loans, etc. And finally the liquidity turns out to become lower. Roxana (2000) according to his point of view there is also ha strong positive relationship between profitability and liquidity position of company.

Liquidity expands the amount of finance of company to meet their short term and long requirement. So, strong liquidity leads towards higher profitability. A low liquidity show week position of company means company has not sufficient liquid, current assets to meet with short term requirements of company. So, According to the research conducted by Chandra in 2001, normally a high liquidity is seen as a symptom of financial strength. However, he said that the real relationship between liquidity and profitability is positive. Low liquidity leads to lower profitability .Due to lower profitability company have not sufficient assets to fulfill the short term requirements of demand.

Liquidity and profitability both have a positive relationship with each other. If liquidity position of firm is best than it show that firm have in a best position. Deleef (2003) said that the liquidity and profitability are positively related with each other. If liquidity increases then it shows lower profitability of firm. If firms have ha strong liquidity position then it shows higher profitability. Eljelly (2004) empirically examined the relationship between liquidity and profitability by measuring them through current ratio and cash gap (cash conversion cycle). He analysis the results that there were significant negative relationship between a firms liquidity level and profitability levels. Because if firms have higher cash conversion cycle higher current ratio and receivable ratio is lower than its lower the profitability in sugar sector of Pakistan.

Different researcher describe his own point of views in different ways. This result shows that there is significant link of liquidity with profitability. Profitability is also affected by liquid assets, cash and current assets ratios because these ratios have a significant effect on the financial position of company. Pimentel et al. (2005) said that liquidity in term of cash, account receivable effect the financial position of company. That's why it's most important for financial point of view because the financial manager by utilizing the liquid assets improve their company performance and profitability.

The liquidity ratio according to the author, mainly suitably be interpreted as an indicator of the degree of independence of the company against creditors and its ability to face crises and unexpected difficulties. Renato (2005) said that the Sugar sector is one of the major sectors of Pakistan. It is growing rapidly due to higher demand for sugar at local and national. But still chances are there to improve its performance and profitability. Thomas (2006) said that the cash conversion cycle and average collection period positively affect the profitability of firm. He suggests that well management of liquidity and reducing the average collection period is helpful for increasing the profit of sugar industries in Pakistan. Nasr (2007) he also examined the relationship of cash conversion cycle, Average payment period, Average collection period, Inventory turnover in days, on profitability and of Pakistani sugar firms. For this purpose they collected data of 94 Pakistani sugar firms. He analyzed the results that there is significant positive relationship between liquid assets and profitability in sugar sector of Pakistan. Because the efficient utilization of these assets leads the firms profitability at high level.

For improving profitability the firm need to have cash, account receivables, then by utilizing these assets the firm profitability can be enhance. Uyar (2009) evaluate the relationship between the firm size, profitability and the cash conversion cycle. The outcome that the cash conversion cycle impact on profitability in sugar sector as compare to whole industry sales. . Edaoruc (2009) said that the whole firms depend upon its management of assets. So, liquidity is combination of liquid assets that significantly play their role toward improving profit of company. By using liquid assets in effective way improve the profit of company will be increase.so, he also suggest that there is positive relationship between profitability and liquidity of sugar industries in Pakistan.

The liquidity in term of liquid assets like cash, account receivable effect the profitability of sugar industry, in this he shows that there is a positive relationship between firm liquid assets and profitability.

According to Farooqi et al. (2010) they analyses the relationship between liquidity and profitability. He said that it is necessary to investigate for every organization even they perform their daily operations.

Liquidity is important variable for measuring the profitability in sugar sector of Pakistan. Because if firm have best liquidity position that show that the firm have best profitability position. Another researcher Judzinska (2010) said that for measuring the profitability in sugar sector of Pakistan liquidity plays its important role. If firms have sufficient liquid assets and then well management of these assets then it became the firm stronger. So, he analyzed the strong positive relationship between liquidity and firm profitability and performance in manufacturing sector of Pakistan basically in sugar. According to Qayyum (2010) there is strong positive relationship between the cash conversion cycle and profitability of sugar sector in Pakistan. The efficient management of these liquid assets impact positively on sugar industries profitability. So, lower period of collection in receivables and conversion of cash leads firm's profitability at higher levels. Liquidity variables play their important role as a silent goals towards improving the profitability in sugar sector of Pakistan. Smith et al. (2010) emphasized that the liquidity perform work as a silent goals to improve the profitability in sugar sector. So, he also analyzed the positive relationship between liquidity and profitability in sugar industry of Pakistan.

The significance of liquidity leads the firms profitability at higher levels. Chariton (2010) analyzed the data of different sugar industries. He found that the firms in sugar sector can increase its profitability by reducing the debtor collection period. According to his point of view this research show the positive relationship between debtor collection period and profitability of sugar industry.

On the other hand a different researcher analyzed that there is also a significant positive relationship between cash conversion period and profitability. Blinder (2010) more investing on cash conversion cycle leads to increasing the profitability of firms in sugar sector of Pakistan. This is possible by increasing sales, reducing supply cost, reducing production cost in this sector. So, we analyze the conversion period and its impact on profitability of sugar industry.

Cash conversion cycle is one of the important tools to calculate the efficiency of the profit of firm.so, if cash conversion cycle period is less then it show strong liquidity position of company and this play important role towards increasing the profitability of sugar sector in Pakistan. Authkaite et al. (2011) pointed out that effective WCM will achieve a high level of profit. He also analyzed that positive cash inflow make company position strong and the company will enjoy good profitability due to its satisfactory level of liquidity.

A growing organization call efficiently manages their working capital and enhance their firm profitability. Hussain et al. (2011) suggest that the efficient management of a company's Current Assets. Current Assets are Cash and Equivalents, Accounts Receivable are helpful for improving the financial position of firms in sugar sector. So, these assets that are cash or equitant to cash directly affect the profitability of firm in sugar sector of Pakistan. Patkar (2011) said that optimal liquidity management is expected to contribute positively for creating value in sugar industries.

To reach an optimal level liquidity play its positive role to improve profitability. It's also show that there is a positive relationship between liquidity management and profitability. So, its primary variable which is helpful to improve the firms' profitability and become a firm an optimal. Nasar (2011) evaluate that most of Pakistani sugar firms have large amount of cash for investment .so, these cash assets positively effect on the financial position of company. So, these liquid assets helpful for improving the profitability in sugar sector and create a significant positive relationship between liquidity and profitability in sugar sector of Pakistan. Well management and utilization of these assets leads company at optimal level.

Many sugar industries analyzed that liquidity management significantly affects the profitability of firms. Rafique et al. (2011) said that there is a negative significant relationship between no of days accounts receivable, and cash conversion cycle where as positive significant relationship with no of days accounts payables with profitability and that's why accomplished that Liquidity management significantly affects the profitability of the firms in sugar sectors of Pakistan. So, liquidity also negatively effect on the profitability of sugar industry in different ways.

Efficient utilization of liquid assets like cash, account receivables will make the firms profit higher. Alipur (2011) by analyzing the different researcher he also give his point of view about the relationship between cash conversion cycle of firm and its profitability. He analyzed that cash conversion cycle negatively affect the firm's financial position and profitability if its time period is too much higher. This week position of company is not provide a value to shareholders. In this way this way this weaker position leads firm's profits down toward. . Shahid (2011) analyzed the results on the basis of his 6 years research on sugar sector in Pakistan. He suggests that if the cash conversion of firms is longer then it leads firms towards higher profitability.

In Pakistan there have been few researchers work on liquidity management of sugar sector. Some suggest that there is positive relationship between liquidity and firm profitability, researcher's analyzed that there is moderate relationship between these variables (cash, account receivables) and profitability. According to ahmed (2011) there is a moderate relationship between account receivable ratio, current assets ratios, cash conversion

cycle and firm profitability. He collect the data of five years about sugar industries and analyzed the moderate effect of independent variables like cash ,account receivables on the dependent variable (profitability).According to his point of view these assets are use just maintain the position of sugar industry in Pakistan.

Sugar sector in Pakistan contribute more as compare to all manufacturing sector. It's necessary that managers needs to sufficient utilization of financial resources to improve the profitability of this sector. Chinaemerem (2012) investigate that there is a significant relationship between liquid assets and profitability of firms. Because when manager sufficient utilize these financial assets than his sales increase due to more demand and this position leads business towards profitability situation. Anthony (2012) analyzed in his research the manager must needs to focus on utilization of his liquid assets just to keep up company in sufficient position. So, he also said that there is moderate relationship between liquidity and profitability of sugar industries in Pakistan.

According to research in Pakistan on this topic is that the managers focus on maintain the balance in company position not to maximize its profitability. Usama (2012) also worked on finding the relationship between account receivables ratios and firm's protability.According to his research there is positive relationship between account receivable ratios and firm's profitability. Because these ratios effect on investment position of company. He collect data of 6 sugar industries of Pakistan and analyzed the results that the absence of these liquid assets leads firm's profitability down towards. According to Bhunia et al. (2012) he examined the association of the firm liquid assets and profitability in sugar sector of Pakistan.

It's necessary for firms to keep up a sufficient liquidity to maintain their position.so, firms need to have too much liquidity to improve their profitability in sugar sector by utilization are efficient management of these assets. Deleef (2013) said that the liquidity and profitability are positively related with each other. If liquidity increases then it shows lower profitability of firm. If firms have a strong liquidity position then it shows higher profitability.

Hypothesis

The main hypothesis to be tested in this study is following:

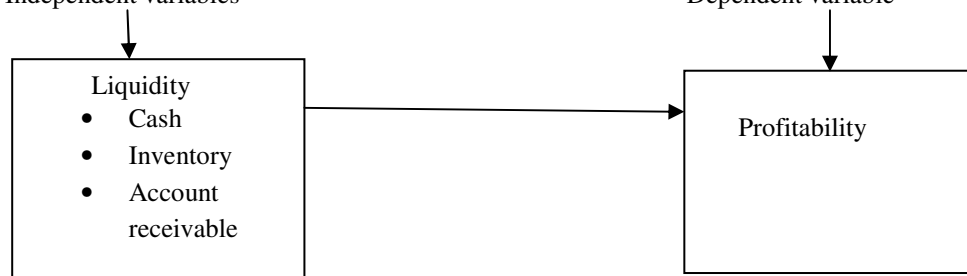
H1: There is a significant relationship between inventory and profitability

H2: There is a significant relationship between Debtors and profitability

H3: There is a positive relationship between cash and profitability

Theoretical framework

Independent variables



Data description and Research methodology

We are going to investigate the impact of liquidity on profitability in sugar sector of Pakistan. The main objective of my research is to observe how the relationship between liquidity and profitability occurs for the studied group, and then compare the result with the other researches. The data which we use in this study for analysis is secondary type. We collected the secondary data from different websites like World Bank, KSE, the data is based on the time series horizon, from the fiscal year 2007 to 2012. The data utilized in this study is extracted from the income statements and balance sheets of the sugar industries which are listed at stock exchange. All the listed sugar mills in Pakistan are the population in this study which consists of more than 100 mills. So, from these best sugar mills we select the 10 sugar mills. We have collected data for Cash, Inventory, Accounts Receivables and net profit of ten sugar mills.

The software which we use as a statistical tool in this study is SPSS. Correlation is used to calculate the relationship between the different variables use in this research. To find the effect of liquidity on profitability of sugar firm's regression model is developed using empirical framework.

Data Analysis

The quantitative research is used to arrive at the findings of research study. Pearson correlation analysis is used to check the relationship between liquidity and profitability.

Correlation analysis

The quantitative research is used to arrive at the findings of research study. Pearson correlation analysis is used to check the relationship between liquidity and profitability.

	Table 1		Correlation Table	
	Cash	inventory	A/R	profitability
Cash				
Pearson correlation	1	.289(**)	.300(**)	.318(**)
Sig.(2-tailed)	-	.293	.000	.018
Inventory				
Pearson correlation	.289(**)	1	.845(**)	.429(**)
Sig.(2-tailed)	.293	-	.000	.000
A/R				
Pearson correlation	.300(**)	.845(**)	1	.242(**)
Sig.(2-tailed)	.000	.000	-	.003
Profitability				
Pearson correlation	.318(**)	.429(**)	.242(**)	1
Sig.(2-tailed)	.018	.000	.003	-

** Correlation is significant at the level of 0.01 (2-tailed).

** Correlation is significant at the level of 0.05 (2-tailed).

The Pearson correlation model shows the results of correlation computation. The results indicate that all the variables are positively associated with profitability. Specifically, the results shows that the cash has strong positive significance relationship with profitability, because the correlation value is 0.318** and significance level is 0.018, significance level is less than 0.05. The relationship of cash with account receivable and profitability is strongly positive and significant, because the value of correlation between cash and account receivable is 0.424** and confidence level is .000. So, that these results show the strongly positive and significant relationship between cash and account receivable. The value of correlation between inventory and profitability is .425** and confidence level is .003, so that results indicate the highly positive and strong relationship between inventory and profitability.

Regression analysis

To further investigate the predictive ability of our independent variables (cash, inventory, account receivable) on dependent variables (profitability) we use the multiple regression analysis. Through regression analysis we check that our model is appropriate or not.

Model summary

Table 2 Model summary		
Model	R	R-Square
1	.732	.536

The table 2 shows the results of multiple regressions. The regression analysis indicate that value of R is .732 which shows that our model is strong because the value of R is greater than 50 .so the regression analysis indicates that there is strong relationship between dependent and independent variables which are included in our study. The independent variables of our study are strongly effect on dependent variable. The value of R-square is .536 shows that our model is appropriate because the variables which we use in our study are correct. Our dependent variable is strongly affected by independent variables of our study.

ANOVA

Table 3 ANOVA		
Model	F	significance
1 regression	.26	.021

The overall significance of the our model is assessed by the values shown in ANOVA table (3).the results indicates that our model is statistically significant because the f-value is 26 and p-value is .021 which shows that the variables which we use in our study is correct. All the independent variables which we use in our

study are positively affected our dependent variable profitability.

DISCUSSION:

The results of our study are driven through model. We use the correlation and regression analysis. The results of correlation analysis show that there is strongly positive relationship between cash, inventory, account receivable and profitability. Positive relationship between variables shows that all the variables moves in same direction. Cash, inventory and account receivable are positively affected the profitability. These results show the significant relationship between cash, account receivable and profitability. There is insignificant relationship between cash and inventory.

According to regression analysis the alternate hypothesis is accepted. Because the p-value in our study model is 0.021 which shows that our model is correct and f-value is 0.26, so that ANOVA table shows the significance of our study model. ANOVA table results show that the variable which we use in our study. The value of R is greater than 50 which shows that our study model is appropriate and value of R-square study is correct. It is also greater than 50 which shows that our study independent variables are effect on our dependent variable (profitability). On the other hand despite of the all variables are significant according to the f and p value of all the variables where are current assets, sales are positively affecting the profitability.

In this study the impact of liquidity is shown on profitability in sugar sector of Pakistan. Sugar sector is the second best manufacturing sector of Pakistan contributes to the economy positively. The results of the research shows that in the studied companies there is significant relationship between liquidity and profitability in sugar sector of Pakistan. In this research account receivable, cash and inventory are taken as comprehensive components of liquidity, by using these variables the efficiency of the firm's profitability is checked easily. These liquidity variables positively effect on profitability on firms in sugar sector of Pakistan.

The results show that there is significant relationship between cash, account receivable and profitability but there is insignificant relationship between cash and inventory. At the end we also conclude that liquidity, its management is so important for firms to indicate and improving the profitability of sugar sector in Pakistan. By using liquidity variables the firm can improve their profitability and also create a value for shareholders by decreasing the receivable accounts and inventory. Efficient liquidity management is most important for creating value for shareholders because liquidity variables play significant role towards improving the profitability. The management must look for the best methods for efficient and correct liquidity management to become an effective profitability in sugar sector. Cash management is so important to improve the profitability of firms. The management must need to take the correct decision for liquidity management incorrect decision cause a negative impact on firm's profitability.

Conclusion

In this study the impact of liquidity is shown on profitability in sugar sector of Pakistan. Sugar sector is the second best manufacturing sector of Pakistan contributes to the economy positively. The results of the research shows that in the studied companies there is significant relationship between liquidity and profitability in sugar sector of Pakistan. In this research account receivable, cash and inventory are taken as comprehensive components of liquidity, by using these variables the efficiency of the firm's profitability is checked easily. These liquidity variables positively effect on profitability on firms in sugar sector of Pakistan.

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Implication

Our study is implemented practically in organizations to take their financial decisions. Study is helpful in organization because through this organizations can check their profitability and liquidity positions. Organizations also check their abilities to pay their short term obligations through better liquidity management. It's useful for finance manager for performing their practical operations like accounts making. This study may be very useful for the financial managers of manufacturing industry in framing policies for managing the firm's liquidity and profitability. So, this research will also be helpful for managers how to maximize the profit of firm and compete with their competitors. In this way manager can get advance knowledge through research

Limitation

The results indicate that there are some limitations in our study. During our research we have faced some problems. The present study is limited only to the listed sugar firms in the manufacturing sector of Pakistan.

Findings and conclusions were drawn with the help of secondary data. Subsequently, the results may not be fully accurate. Furthermore, data representing the period of 6 years were used for the study.

Future Research Direction:

Every sector in manufacturing sector should be investigated at micro level for efficient liquidity management. So, it can be understood that which factors affect the liquidity management more and how can liquidity management increase profitability in sugar as well as different other sectors of our country. It is recommended to firms to use liquidity variables in their financing rather than short term loans because these are expensive. Institutional investor must be part of company. It will cause a healthy impact on performance.

Therefore, I suggest the following for further research:

1. Findings reveal that, there is significant relationship between liquidity and profitability. This is a sign that, changes in the liquidity position of manufacturing firms exercise remarkable changes in the profitability. Other factors such as, seasonal changes in demand, firm size, manufacturing cycle and technological changes may also exert a greater influence on the profitability of manufacturing firms. Hence, this area is directed as a scope for future research.
2. There are currently more than 100 companies listed in the Karachi Stock Exchange (KSE) under sugar sectors. The study covered only the listed sugar firms. Therefore, further investigation is required to examine the relationship between liquidity and profitability of firms in the different sectors.

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