ABSTRACT

The ultimate goal of every company is to enhance the wealth of the shareholders. For that purpose, liquidity and profitability play an essential role. This study has an endeavor to know the effect of liquidity ratios on profitability, that how liquidity can affect the profitability either positively or negatively. The liquidity includes cash ratio, quick ratio, and current ratio, which measure the firm's productivity and performance of return on assets. This study has been conducted on the data of 12 firms in the automobile sector of Pakistan from 2013 to 2017. The primary goal of the study is deciding the impact of cash ratio, current ratio, & quick ratio on profitability (ROA). Moreover, these proportions are the financial tools to measure the performance and liquidity place of firms. Further, it helps to know that firms have stood, whether pay or not, its short-term debt. Also, it determines how firms can increase their profit by investing in a different class. It uses effective strategy and policies to overcome the negative results of a liquidity problem. In this research, secondary data is used. The data of both liquidity and profitability ratios have been collected from different sources, like the firm's annual financial statements, links, and other sources. Objectives are achieved through the analysis of collected data by using the fixed-effect (FE) model and random effect (RE) model. Furthermore, the Hausman test was utilized to know the best model between RE or FE. The Results accept the use of the FE model for this study to analyze the effect of liquidity (quick ratio, current ratio, and cash ratio) on profitability to find out the negative or positive effect on a firm. They indicate the significant and insignificant relationship of liquidity variables to the profitability of automobile industries. This study finding presented that insignificant and negative association of current ratio with return on assets, cash ratio has a significant and negative impact on return on assets. The quick ratio has a significant and positive relationship with return on assets.

Similarly, it is indicating that continuous progress in the liquidity variables can lead to rising the profitability of automobile industries. The findings suggest that companies have to increase their performance and profit by improving a firm's financial position of liquidity and performance. The indications of the results of this research are that firms should utilize their current assets at an optimal level to ensure higher productivity.