

The Impact of Liquidity on Profitability of A Listed, Food Firms of Pakistan Stock Exchange

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Abstract

A definitive objective of each organization is to improve the abundance of the investors. For that reason, liquidity and profitability assume a fundamental part. This examination has an undertaking to know the impact of liquidity ratio on profitability that what liquidity can mean for the profit either emphatically or contrarily. The liquidity incorporates cash ratio, quick ratio, and current ratio, which measure the association's efficiency and execution of return on assets. This examination has been directed on the information of 15 firms in the Food area of Pakistan from 2014 to 2019. The essential objective of the examination is choosing the effect of cash ratio, current ratio, and quick ratio on profit (ROA). Also, these extents are the monetary devices to quantify the presentation and liquidity spot of firms. Further, it assists with realizing that organizations have stood, if pay, its momentary debt. Likewise, it decides how firms can expand their profit by putting assets into an alternate class. It utilizes viable methodology and arrangements to defeat the adverse after effects of a liquidity issue. The Results acknowledge the utilization of the (FE) model for this investigation to dissect the impact of liquidity (quick ratio, current ratio, and cash ratio) on profitability to discover the negative or constructive outcome on a firm. They show the huge and immaterial relationship of liquidity factors to the profitability of Food enterprises. This investigation discovering introduced that unimportant and negative relationship of current ratio with return on Assets, cash ratio adversely affects return on Assets. The quick ratio has a huge and positive relationship with return on Assets.

1.1 INTRODUCTION

Pakistan is developing country. Where there is many firms besides this Food firms are playing an important role in economic development of Pakistan. Food sector is large revenue generating sector in Pakistan, where many companies Fuji food, and Engro food are manufacturing there products, like flavored milk, milk powder, juices, ice-cream, recipe masala and are listed in Pakistan stock exchange. On the other side clover Pakistan produce rice and dall and Good luck industries are manufacturing flour and wheat items' maida, atta, fine, bran. And nestle are manufacturing dairy, juices, breakfast etc.

This research primarily focuses on impact of Liquidity ratio on the profitability of the food sector listed companies of Pakistan in which financial reports or data is taken from psx and also firms website so that this research completely depends on secondary data. Listed companies publish their financial reports on quarterly, half annually and annual basis. Investors analyses these reports for making their investments and knowing about the future plan of companies (Musallam, 2018).

Profitability refers to the firm's ability to generate revenue through the use of total services & assets .Profitability ratio is helpful to calculate company's ability in earning incomes (Husna & Desiyanti, 2016).

Liquidity includes (current ratio, cash ratio, and quick ratio) it indicates the change of assets into cash and using liquidity ratio to measure the ability of firm to meet firm's short term liabilities (Robinson et al., 2015). Study of financial reports tells about the financial ratios which help in classifying the profitability and of a firm after the

deduction of taxation and expenses. As a outcome, the analysis or study of financial reports and calculating financial ratios help them in making good decisions and current and future investment (Musallam; 2018).

1.2 RESEARCH PROBLEM

There is incredible exploration on the subject of the impact of liquidity on profitability (ROA). Likewise, here in Pakistan, hardly any investigations have been directed in the point of view of firms recorded. Past researches either centered on the impacts of liquidity or had no impact on execution, so blend results are in a similar report. There is a mixed end in extant writing from which some have demonstrated a negative association, some have shown a positive and large association, and still others have demonstrated that there is no association between liquidity and profitability (ROA).

Different writings exist on the impact of liquidity on the advantage in the substance of documented enterprises in distinct parts of Pakistan. Regardless, the writing surveys plainly revealed that no specific research has been delivered in Pakistan on the effect of liquidity on the profit of the Food sector. As a result, there was a gap in earlier investigations, which this investigation seeks to remedy in order to offer data in the field of accounting.

1.3 RESEARCH QUESTION

- 1 Do listed food companies have a substantial impact on the Pakistan stock exchange?

1.4 RESEARCH AIM

- The main aim of this study is to find out liquidity ratios impact on the profitability of the listed Food firms.

1.5 RESEARCH OBJECTIVES

1. Determine the impact of the current ratio on profit.
2. Determine the Cash Ratio's Impact on Profitability.
3. Determine the Quick Ratio's Impact on Profitability.

1.6 RESEARCH HYPOTHESIS

- H 1: Current ratio has a negative impact on profitability of food firms of Pak
- H 2: Cash Ratio has a negative impact on profitability of food firms of Pak
- H 3: The Quick Ratio has a positive impact on the profitability of Pakistani food companies.

1.7 RESEARCH FRAME WORK

VARIABLES OF LIQUIDITY

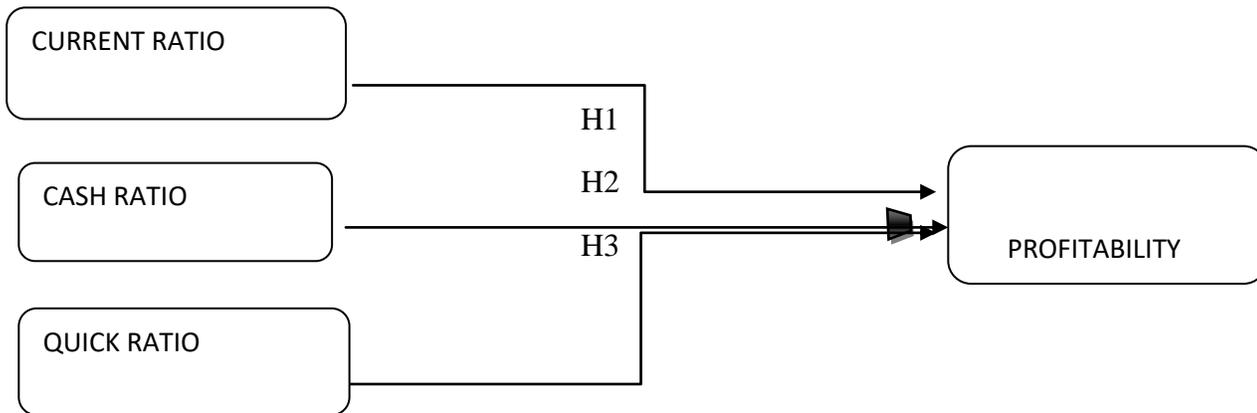


Figure 1. Research Framework

1.7.1 EXPLANATORY VARIABLES

Current Ratio: -

The current ratio measures a company's capacity to meet current debts with current assets

$$\text{Current Liabilities} / \text{Current Ratio}$$

Cash Ratio:

The cash ratio measures a company's ability to pay its present debts quickly and easily.

$$\text{Current debts} / \text{Cash} + \text{cash equivalents}$$

Quick Ratio:

The quick ratio stresses a company's capacity to pay current creditors using short-term assets.

$$\text{Current assets} - \text{Inventories} - \text{prepaid assets} / \text{Current Liabilities.}$$

(Robinson, et al., 2015).

1.7.2 REJOIN AND TIME EFFECTS

It refers to the firm's fixed components, such as its geographic location, history, and corporate culture that do not change on a regular basis. The time impact of a firm is denoted by the letter t ; for example, political authority arrangements and macroeconomic conditions at different times may have a major impact on a corporation's earnings.

1.8 SIGNIFICANCE OF THE RESEARCH

The discoveries from this investigation showed how profitability is influenced by liquidity. It aids in comprehending the financial situation of the organization to which financial backers must give. It assists and protects the business from the risk of failure in future ventures.

The proposed of this study helps as a manual for cash directors for settling on the venture choices that will fulfill partner's inclinations concerning liquidity and profitability. It will be useful for the scientists to reveal the monetary state of this (Food) area or different areas that numerous analysts didn't investigate and assessment of the speculation.

LITERATURE REVIEW

2.1 LIQUIDITY CONCEPT

Liquidity the board has an imperative impact in every association thinking about that each gathering wants to develop the profitability (ROA) and (ROE) through, utilizing liquidity, i.e.; (CR), and (QR) to gauge the monetary effectiveness and liquidity position of the industry. There is various exploration, on liquidity ratio and profitability of a firm which shows how liquidity can, increment or abatement their association's benefit. Liquidity the executives demonstrates that organizations pay their transient debt commitments and backing their usefulness and execution. On the off chance that a partnership deals with an issue of liquidity so it should utilize procedure or strategy to determine its concern of liquidity. Firms will have enough cash to solve their liquidity problems. These liquidity ratio have important procedures and processes in place to determine liquidity for the profit of the executives and the organizations (Mohanty and Mehrotra, 2018, Noor and Samreen, 2015).

Liquidity management is a crucial tool in the management of businesses. It emulates the organization's capacity to repay brief term periods debts, which consolidate working expenses and cash related expenses coming about inside the organization in the present time moment (Ogakwu & Manyo, 2013). It's important to know whether drawn out commitment is more prominent, in a financial year or (working cycle). Different liquidity, ratio used by firms to control the liquidity, for instance, (current ratio, cash ratio and fast ratio), these ratio can fundamentally impact the company's monetary presentation (Robinson, et al., 2015).

Saravanan and Abarna (2014) conducted research to examine a company's profit from exploiting the liquidity of Indian steel firms. The liquidity condition that a company is in is characterized by temporary commitments. Accordingly, the ratio of liquidity are significant markers for estimating modern cycles. In the event that a firm need to run so they ought to have sufficient cash close by to proceed in business innovation. The firm would have not all that much or deficient cash; nonetheless, having sufficient liquidity to arrive at its transient errands inside time. Liquidity in overabundance can't contribute, low benefit, and lacking liquidity makes inconvenience for exchange. The organizations ought to keep up dependability among conditions and viable liquidity, the board.

Liquidity, ratio are the assortment of ratio that can be used to figure the situation liquidity of a firm. They help to examine whether a firm will probably be skilled to fulfill monetary commitments temporarily. Low liquidity will influence a firm, to battle of meet the debts of exchange activities. Thusly, it compelled to look at debt financing to help its tasks (Jenkinson , 2008). It is well known that liquidity is the essential method that shows

whether the association can possibly get its transient debts or not denied of enduring humiliating misfortunes. Because of the inadequate use of assets, and liquidity hazard, may rise, which might be the most difficult possibility in examination with various business chances. (Subhanij , 2010) Claimed that liquidity hazard, has showed up, as more intricate considering that of the most recent improvements in the business markets. Likewise, the liquidity hindrance of a solitary firm can influence, in a roundabout way or straightforwardly, on every one of the organizations working in the comparative business. An organization with acceptable liquidity has more prominent monetary adaptability so it may trade with providers and financial backers.

(Rehman, and Saleem (2011) Every industry, according to , must successfully manage liquidity and usefulness relationships. The liquidity ROA was shown to have a favorable association.

Further, of the study suggested that every ratio, differently affect the association's monetary exhibition. Financial backers, providers, and laborers additionally worried about the situation of liquidity of the firm. The firm has adequate cash to satisfy its commitments since liquidity ratio and profitability ratio are intently including an association's exhibition and benefit.

Liquidity alludes back to hop for change of assets into cash. Liquidity explicitly consideration on the progressions of cash. Income is a method used to quantify the capacity of an organization to satisfy its transient commitments. Liquidity organization achieved over the current utilization of assets (Robinson et al., 2015). Liquidity consider:

Current Ratio (CR)

Cash Ratio (CAR)

Quick Ratio (QR)

2.2 CURRENT RATIO (CR) :

In terms of liquidity ratio, liquidity will also communicate (CR, CAR, and QR). The CR is the ratio of current assets (CA) to current commitments (CL), and it is used to measure the liquidity edge (Brealy 2012). The CR is a tool for estimating the liquidity of a company or a board of directors. The CR is also used to assess the relationship between CA and CL To determine the association's ability to pay short-term debts, such as accounts payable, credits, or advances, which is what the CA to CL describes. It's also a metric that's used to determine an asset's liquidity, albeit it's different from CL. (Samreen and Noor, 2015). The degree of CR communicates inordinate liquidity of the firm, likewise a higher capacity to meet the momentary commitments. Limit the current ratio, conveys the mishap of liquidity, and the part of the fixed assets subsidized through transient risk. While deficit in liquidity may bring about the organization's energy disappointment or affect benefit. Sign of current ratio is that current assets and current liabilities are equivalent (Robinson et al., 2015). Prompt reductions inside the current ratio show emergency.

In any case, each have their own quirks. Assume that a company receives a large sum from the financial foundation and spends it on short-term insurance. Nothing changes the current percentage, and organizing capital remains untouched. It's possible that it's generally acceptable for the present situation at this point.

When calculating the current ratio, take into account all debts and short-term reserves (Brealey, 2012) .

Current ratio formula (CR):

$$(CR) = \frac{(CA)}{\quad}$$

(CL)

Current Ratio, = (CR)

Current Assets, = (CA)

Current Liabilities, = (CL)

2.3 CASH RATIO. (CAR):

In addition to the cash devoted to CL, utilities rely on temporary retail ventures (Durrah et al., 2016). One of the most important liquidity ratio is cash ratio. To determine a firm's liquidity, this is an often used percentage. The organizations include cash counterparts and include cash to its CL are known as cash ratio. An association's most fluid assets are its property of attractive protections and capital, and that is the explanation master's thought with respect to Cash ratio. It will perhaps thus examine if and how quick, momentary debt paid by a firms. A steady cash ratio is significant to the recipient when sorting out how much debt, assuming any and they would defer the asking party. (Brealey, 2012).

Cash ratio formula of calculating:

$$\text{Cash Ratio (CAR): } \frac{\text{Cash Equivalent} + \text{Cash}}{\text{Current Liabilities (CL)}}$$

2.4 QUICK RATIO:

The first fluid of current assets to current commitments is included in the fast ratio. The higher the value of the quick ratio, the more important the association's liquidity is. The quick ratio eliminates pre-paid expenses and records from on-hand assets that are difficult to convert into cash. (Durrah et al., 2016). Likewise, the association's office to repay momentary responsibility quickly without any including shares.

In relation to the transient tasks of an industry, this Quick percentage provides the equivalent of cash and other existing assets that can be effectively inconsistent into cash. The fast ratio of 5% indicates that a company is willing to make quick decisions on half of its current debts. It is not quite the same as the current ratio in those current assets that are not rapidly variable into cash is excepted from the estimation, for example, stock and postponed tax reduction while thinking about that difference in such assets into cash may take a tremendous period Samreen, and Noor, 2015).

(Brealey, 2012) This ratio depicts an industry's transient liquidity and is calculated using current assets; inventories are removed, then current liabilities are separated. It tests an association's ability to fulfill its brief period assignments with the whole fluid assets, subsequently excluding inventories. The QR estimates the peddling amount of fluid assets existing for each pushing of current commitments. As a result, a QR of 1.5 indicates that a company has Sh1.50 in fluid assets to ensure that each Sh1 of existing responsibilities is met. When the firm's liquidity position improves, so does the quick ratio, and vice versa..

Calculation method/formula for quick ratios.

$$\text{Quick ratio (QR): } \frac{\text{Current assets} - \text{Inventories (I)}}{\text{Current liabilities (CL)}}$$

2.5 PROFITABILITY

Benefit denotes an industry's ability to generate revenue as a result of its financial speculation. Profitability restores a company's powerful status in terms of quality organization. It is a reflection of a company's failure or success (Durrach et al., 2016). Benefits are still an important part of running a business. A firm that isn't helpful couldn't proceed, albeit enormously beneficial organizations can return its financial backers with critical income on their offer. To gauge the association's monetary effectiveness through one of the monetary ratio that are called profitability. The dynamic choice and utilized the right monetary ratio is one of the basic highlights of the organization's financial interaction (Innocent, 2013).

A firm estimation may influence an association's capacity to acquire higher intensity and financial execution. (Balasundaram and Priya, 2013) It saw that time periods have an altogether higher result on the enduring capacity of little organizations than large organizations. More huge firm things will in in general, have a larger top market size and greater control over the financial environment, as well as access to assets not available in a smaller organization. To examine the income/monetary situation of an industry for a certain period, profitability incorporates more than a couple of ratio. The specialist focuses on the profitability ROA during the assessment.

Benefit is a ratio of net profit and uses. Income allude to ascends in investor's value results from the exchange of products or effectiveness of administrations in the ordinary way of business. It contains cash and certifications to get some cash later on (account receivables). Consumptions are diminishes in investor's value due to the costs spend as an approach to get earnings. These may incorporate direct cash installments or guarantee future installments (Muthoni, 2013). Profitability is characterized as a company's complete benefits less its working costs, expenses, devaluation, and interest paid. Profitability is the ability to make advantage. Profitability ratio contain capital ratio, Return on value, net overall revenue, and Return on assets. It estimated through profitability. Profitability refers to the organization's ability to produce cash as a return on their investment; profitability ratios refer to the firm's powerful status in addition to quality management. It demonstrates the business's failure or success (Robinson et al., 2012). The fraction of Profitability will be discussed next.

Return on Assets (ROA).

2.6 RETURN ON ASSETS (ROA)

It investigates the relationship between assets and net benefit. The increase in the percentages denotes the firm's use of assets as a source of support (Robinson et al., 2015). The Return on Assets (ROA) is calculated as a percentage of the total assets under the organization's control. Subsequently, The reasonable impacts of organisational decisions and changes, as well as the business's situation within a period, are returned by ROA. In the meantime, it demonstrates the sufficiency of the organization's control over a large number of assets ROA is sorting out a ratio of proficiency by default. Return on resource is a corporate appearance of the profit from speculation indication that is useful to execution in a company. Estimation of return on assets is divided into yearly pay and absolute assets, and it measures an industry's display.. ROA is an indication of how useful of industry identified with its general measures of cash. ROA gives an idea regarding how fruitful the organization is using its assets to make benefits. The ascent consequently on assets amount, the better, because of a firm is procuring expanding on lower speculation (Rehman, & Khidmat2014).

Return on assets equation and calculation:

$$\text{ROA} = \frac{\text{Net Income (NI)}}{\text{Total Assets (TA)}}$$

2.7 IMPACTS OF LIQUIDITY ON PROFITABILITY:

In their investigation, it is about the stock trade Istanbul, the CR of liquidity is insignificant. Net net revenues and profit to cost are important to portray stock returns. Additionally, this investigation shows that net revenue and incomes to cost are powerful factors of stock returns. Stocks with higher net revenues and E/P ratio make more prominent returns for the following time frame (Öztürk and Karabulut, 2018).

Sarwat, (2017) found in his examination that the current ratio has a positive and huge association with return on assets. Balasundaram and Priya (2013) examine that a significant association between cash ratio and CR with ROA. (Ruziqa, 2013; Khidmat and Rehman, 2014) shows the critical positive impact of liquidity ratio on ROA.

Ibrahim (2017) likewise looked in his examination that the positive effect of liquidity over ROA, liquidity rate increments with the augmentation of return on assets and the other way around, while, as indicated by Mahmud and Akhter (2014), there is a unimportant relationship of CR with ROA.

Paliwal and Chouhan (2017) deduced in their examination that comparative changes in the profitand liquidity in the various firms, and cash ratio has a positive and huge association with profitability. (Ajanthan, 2013, Abdullah and Jahan, 2014) found in their examination that among profitability and liquidity has a huge relationship in firms of the stock trade and portrays that in the company's presentation, liquidity ratio assume a fundamental part. The remarkable blend of profitability and liquidity assists with improving the exhibition of the organization.

Liquidity significance has seen when liquidity lack occurs. A firm endures a considerable amount of issues to hold everyday operational developments. Additionally, due to the liquidity lack, a financial backer may lose his impact of control, which even at last welcomes lower income information. Besides, a financial backer probably won't be paid his offer on schedule because of the shortage of liquidity (Karmakar, 2016).

As indicated by Durrah et al., (2016) liquidity ratio have a positive relationship of the CR with ROA,. Likewise, it seemed positive relationship of fast ratio and liquidity ratio has an idealistic association with return on assets.

The exploration of Ghasemi and Razak (2016) deduced in their examination that CR and QR were used to figure the association's liquidity through autonomous liquidity factors. Moreover, brief period debt was impacted by liquidity contrasted with extensive stretch responsibility.

Malik et al. (2016) Concluded that the relationship of return on assets with liquidity are critical genuinely. Notwithstanding, (Khan and Mutahhar Ali, 2016; Ahmad, 2016, and

Lartey et al., 2013) their examination showed that there is a helpless positive connection among liquidity and benefit. Furthermore, it has been recommended that banks adjust and change their working liquidity arrangements; this will not only increase income on the value of the bank's partners, but will also increase the utilization of the bank's assets.

Following that, an investigation by (Rehman (2015) relationship between profitability and liquidity includes 99 enrolled TAIWAN enterprises. Results revealed that his inquiry has one specific variable has a significant relationship between ROA and CR of Saudi Arabia's organizations. The relationship between the ROE and the cash ratio and the QR of Saudi Arabia's organizations is, however, irrelevant. Furthermore, there may be a little association between three specific liquidity free components in the ROE situation, namely, CR, cash ratio, and QR. Ogakwu and Manyo (2013) The study looked at the enrolled corporations in Nigeria's stock exchange from 2000 to 2009. In their study, they looked into 46 companies. The positive influence of liquidity on ROA was discovered, indicating that an increase in liquidity would result in an increase in ROA

Greetings, Bolek (2013) The analysis uncovered a link between liquidity and profitability, as well as risky businesses. The CR of liquidity has a clear relationship with ROA, according to findings. Furthermore, it was deduced that the increase in data revealed that unprecedented reasons have an impact on each profitability percentage in terms of liquidity and risk.

3.1 RESEARCH MATERIALS AND METHODS

It portrays the technique received for this examination, and this examination depends on a quantitative methodology. Quantitative data is essential to achieve the objectives of this investigation and to clarify the destinations. As a result, the optional information collection technique was used. In this examination, 15 food companies were enrolled in Pakistan's stock exchange. For this investigation, The Data is gathered from Pakistan's stock exchange and food industry official websites.. Furthermore, STATA 14 version programming was used to investigate the data acquired during this inquiry using the RE and FE models, and the Hausman test assisted in the selection of a more appropriate model.

At last, the consequences of this examination sway liquidity on the profit of the Food businesses of Pakistan is found. The interaction began with the monetary reports of the Food organization's information, gathered from Pakistan stock trade and different connections. This part shows the information investigation of data gathered on the liquidity and profitability of Foods firms. This investigation includes 15 Pakistani food companies. The enumeration of Pakistan's 15 food companies was completed. The tool STATA 14 was used to analyze the data from this inquiry using the fixed-impact model and the arbitrary impact model. The Hausman test aids in the selection of a more suitable model. Appendices provided more information on the food companies.

4.1 Data Analysis

The interaction began with the monetary reports of the Food organization's information, gathered from Pakistan stock trade and different connections. This part shows the information investigation of data gathered on the liquidity and profitability of Foods firms. This investigation includes 15 Pakistani food companies. The enumeration of Pakistan's 15 food companies was completed. The tool STATA 14 was used to analyze the data from this inquiry using the fixed-impact model and the arbitrary impact model. The Hausman test aids in the selection of a more suitable model. Appendices provided more information on the food companies.

4.2 DESCRIPTIVE STATISTICS:

Descriptive statistics are a type of information that uses only a few words to summarize the essential characteristics of a study's data. Descriptive statistics are a statistical tool for validly and meaningfully summarizing data. Not only for data, but also for statistical procedures used for hypothesis testing, a good and adequate measure is critical. (Mishra.P, 2019)

Table 1. Descriptive Statistics

	Total number	Minimum	Maximum	Mean	Std.Deviation
Current Ratio	88	.3128029	138.5273	6.234614	19.4361
Quick Ratio	88	.0179451	123.2727	4.301234	17.01611
Cash Ratio	88	.0056982	122.9991	3.687783	17.00627
Return on Assets	88	-45.03436	40.46247	7.236067	14.48103
Valid N (list wise)	88				

Table 1 addressing the factors' precise measurements We used engaging insights to study the relationship between several individual elements, such as current ratio, cash ratio, and quick ratio, as well as return on resource ratio as a dependant variable-ratio, in the stock market of Pakistan.. From 2014 to 2019, the information of each of Pakistan's 15 food companies includes all 88 observable statistics as well as adjusted board information. The dependent variable is used to calculate ROA. ROA has a mean value of 7.23 and a standard deviation of 14.5.

4.3 RANDOM EFFECT MODEL OUTCOMES:

Table 2. Random Effect Model (RM) (N = 88)

Return on Assets Variable	RoA Dependent	(Random Effect)	P-value
Current Ratio	CR	-.9216855	0.176
Quick Ratio	QR	2.551476	0.013
Cash Ratio	CAR	-1.636789	0.020
	Cons	7.902616	0.046
	R ²	0.1457	
	sigma_u	14.650576	
	sigma_e	6.0323474	
	Rho	.85503955	
	no: of groups:	15	

R square addresses the rate change as a result of assets; it is clarified by liquidity as a free factor. As a result, the liquidity variables used to represent roughly 14.5 percent of fluctuations in ROA..

The models using return on assets as a dependent component are shown in Table 1. The evaluated irregular impact model discovered that the CR and cash ratio have no bearing on ROA, but the quick ratio has a strong relationship with relative ROA. $R^2 = 0.1457$ percent is clarified by informative factors.

Assessment of the irregular effect model yields a few liquidity autonomous components, including CR, cash ratio, and QR, with the following outcomes:

Despite this, with a p-value of 0.18, there is a positive relationship between the CR and the ROA. We can say that the CR and ROA have a minor relationship.

Cash ratio has a negative relationship with ROA; nevertheless, with a p-value of 0.02, the study has also discovered that Cash ratio has a negligible relationship with ROA.

With a positive link between quick percentage and return on assets (ROA) and a p-value of 0.013, we can conclude that just a quick ratio has added to ROA.

4.4 FIXED EFFECT OUTCOME:

Table: 3 Fixed Effect Model (N = 88)

(Return on Assets RoA Dependent Variable)		Fixed Effect	(P-value)
Current Ratio	CR	-0.9162615	0.199
Quick Ratio	QR	2.636737	0.014
Cash Ratio	CAR	-1.732813	0.018
	Cons	7.997619	0.000
	R^2	0.1457	
	sigma_u	13.930903	
	sigma_e	6.0323474	
	Rho	.84210132	
	No: of groups:	15	
	Prob > F=	0.00	

It's worth noting that: Percentage change in assets as a result of R square, as shown by the free liquidity variable. In this way, the liquidity factors remembered for the exploration can explain roughly 14.5 percent change in the profit from assets.

Table 2 shows the results of the FE model assessment of the few liquidity autonomous elements, which are CR, cash ratio, and QR:

Despite the fact that the present ratio has a negative association with return on assets (ROA), with a p-esteem of 0.199, we can state that the current ratio has a minor link with ROA..

The Cash ratio has a demonstrably important but regrettable link with ROA; yet, with a p-esteem of 0.018, we can equally state that the Cash percent adds to return on assets in general.

Because of the positive relationship between Quick ratio and ROA and the p-value of 0.014, the quick ratio has added to ROA.

4.5 TEST AND SELECTION OF MODEL:

This exam is based on information from the board. It could very likely be a blend of time-arrangement and cross-sectional data, demonstrating that it was derived from a get part of diverse data seen repeatedly at various times.. The (GLS) Generalized Least Square approach is used to outline two models in order to choose the most acceptable model between the RE and FE models (Umobong, 2015).

4.5.1 HAUSMAN TEST:

This study is based on information from the board. The FE and RE models were used to analyze the data from this inquiry. It investigates the use of a Hausman test to determine a more appropriate model for this examination between FE and RE.

H0: Both assessments (RE and FE) are comparable in terms of coefficients and fit.

H1: The FE is appropriate, but the RE is not.

4.6 (RESULTS OF HAUSMAN TEST)

Table. 4. (Hausman)

		(b) Req – fe	(B) Req - re	(b – B)	sqrt (dia q (V_ b-V_ B))
Variables					
Current Ratio	CR	-.9216855	-.9216855	0	0
Quick Ratio	QR	2.551476	2.551476	0	0
Cash Ratio	CR	-1.636789	-1.636789	0	0

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2 (7) = (b-B). [(V_ b-V_B) A (-1)] (b-B) = **0**

Prob > chi2 = 0 .000

NullHypothesis: The FE model is more realistic than the RE model. The test Hausman was given to determine the outcome of the speculation trial, and the result is as follows:.

The p-esteem in Table 3 is 0.000, implying that it is noticeably large at the typical degree of 0.05.

Choice: Because the p-esteem is 0.00, the data demonstrate that the FE model is more appropriate than the RE model. As a result, when examining the impact of autonomous liquidity determinants on return on assets, the invalid speculation was disregarded (ROA). In this regard, the results of the FE model assessment should be considered in the context of this investigation.

4.7. (HYPOTHESES ASSESSMENT SUMMARY) :

HYPOTHESIS	β -VALUE	Sig. Value	EMPRICAL CONCLUSION
H1: (Current ratio has a negative impact on the profitability of Food firms o)	-0.9162615	0.199	Rejected
H2: (Cash ratio has a negative influence on the profitability of Food firms)	-1.732813	0.018	Accepted
H3: (Quick ratio has a positive effect on the profitability of Food firms)	2.636737	0.014	Accepted

4.7.1 (HYPOTHESIS) H1 :

The outcomes appeared in the above table lead us to dismiss our Hypothesis H1 and infer that the CR negatively affects theprofitof Food firms. Along these lines, the more noteworthy the CR, the second rate will be the profitability of the Food enterprises of Pakistan. The outcomes of our inquiry differ from those of Goddard and Tavakoli (2005), who discovered that advantage rises with an increase in the liquidity (current ratio) of European nations' assembly corporations and administrations organisations. Nonetheless, our findings back up Mohanty and Mehrotra's (2018) findings that show that benefits fall as the current fraction rises.

4.7.2. (HYPOTHESIS) H2 :

Regarding the second hypothesis H2, we admit it and conclude that the negative impact of cash ratio on theprofitis real. Along these lines, the ascent in Cash ratio diminishes the profitability of recorded Food enterprises in Pakistan stock trade. Discoveries of this investigation are differentiating to the exploration of (Durrah et al.) (2016) as they discoveredprofitincrements, with the expansion in the liquidity (cash, ratio). They investigated the relationship betweenprofitand liquidity through research on modern food firms conducted in Amman and Bursa.

4.7.3 (HYPOTHESIS) H3:

The findings suggest that the acceptance of hypothesis H3 and the assumption that QR has an impact on profitability. In this way, an expansion in QR raises the profitability of the recorded Food area in Pakistan stock trade. The consequences of this investigation are not at all like the examination of (Mohanty and Mehrotra) (2018) during their investigation, they discovered a negative association between QR and benefit. With the development of liquidity (Quick percentage) in the profitability connection, theprofitreduces. An investigation into India's SMEs. However, the findings of our investigation revealed that Al-Qadi and Khanji's aftereffects are similar (2018) discoveries that profitability increment with an increment in fast ratio

4.8 (FINDINGS) :

The FE and RE models have been designed for the evaluation and evaluation of information based on the dependent variable ROA and the free variables CR and QR. The Hausman test was devised and applied for the purpose of determining the model. Typically, the R2 esteem is 0.145, indicating that CR, CAR, and QR account for 14.5 percent of the variation in benefit.

The p-esteem was found to be 0.00, which is lower than the degree of importance, which is 0.05. As a result, this analysis concludes that there is a significant association between profit and the CAR and QR, but a negligible association between profitability and the present ratio.

Furthermore, the capture is positive, implying that the QR has a positive relationship with profit whereas the CR and cash ratio have a negative association with profitability.

The results on return on value, indicating a blunder because the profit from value is unaffected by these liquidity ratio (CR, CAR and QR). The adjustment of hoops changes ROE, and the adjustment of net revenue modifies Earnings. As a result, this investigation focuses solely on the effects of liquidity ratio on (return on assets). Because there is no p-esteem, Saleem and Rehman (2011) discovered that profit from value has no significant impact on the three ratio CR, QR, and CAR on ROE. whose worth came under 5%.

5.1 CONCLUSION AND RECOMMENDATIONS

This examination comprises of one exploration question, three targets, and including three theories. This investigation applied fixed impacts model and arbitrary impacts model outcomes for the assessment and examination of information. Furthermore, Hausman test utilized in the choice of suitable model. This measurement was utilized for demonstrating these theories. Thus, the Hausman test showed the likelihood esteem 0.00, which shows dismissal of the invalid speculation and acknowledgment of an elective theory. It implies that a more reasonable model is fixed impact model in light of the fact that fixed impact model is an elective theory. Fixed impact model outcomes were taken for the clarification of this examination.

Further, this examination discovers that the current ratio, cash ratio and fast ratio has affected the profit of the organizations. Fast ratio impacts the profitability of Food firms emphatically significant, current ratio isn't huge relationship with return on assets while cash ratio have influenced the profit of the Food adversely.

The discoveries demonstrated that the investigation set up a negative connection between the liquidity (cash ratio) with profitability since firms are not making from that cash, which was not contributed; it is accessible for crisis use.

While the positive relationship of quick ratio with profit (ROA) of Food firms in Pakistan. The Quick ratio is positive since fast ratio closes just those assets which are effectively changed into cash in present moment. It likewise demonstrated that higher liquidity ratio show more prominent liquidity and, consequently, emphatically impact the profitability of a firm

Ultimately, the investigation demonstrated genuinely huge positive just as a negative connection among liquidity and profit of the Food firms in Pakistan. Along these lines, firms need to build their exhibition and profit by improving an association's monetary liquidity circumstance and firm execution. The signs of the aftereffects of this exploration are, firms ought to use current assets at a conventional level to get higher profitability.

5.2 CONCLUSION:

This examination is led to research the effect of liquidity on the profit of Food firms recorded in the Pakistan stock trade. Consequences of the observational examination demonstrate that liquidity fundamentally affects the company's profitability or no any effect of liquidity on the company's profit (return on assets and return on value), either there is a positive effect of liquidity on association's profit or unfavorable impacts of liquidity on association's profitability.

To gauge the monetary presentation of the firm and association's liquidity position by utilizing ratio of liquidity that how execution and profit of firms increment or decline by liquidity in the wake of exploring the Food area's 15 firms of Pakistan, dissect the effect of liquidity on profitability.

Information assembled methodically from 2014 to 2019. The investigation of 16 Food firms in Pakistan. Fixed impacts, Random impacts have been led for the assessment and investigation of information and Hausman test utilized in the choice of the model. Three free factors were examined (Current ratio, cash ratio, and quick ratio). The discoveries showed that this examination set up a not critical connection between the liquidity (current ratio) with profit (ROA) in light of the fact that the current ratio, including those current assets which isn't effectively changed over into cash temporarily. Additionally, cash ratio is negative since firms are not making from that cash which isn't contributed. It is accessible for crisis use.

While the fast ratio has a positive relationship with profit (return on assets) of Food firms in Pakistan. The quick ratio is positive in light of the fact that a fast ratio finishes up just those assets which are effortlessly changed over into cash for the time being and furthermore showed that higher liquidity ratio demonstrate more prominent liquidity and, accordingly, decidedly impact firm profitability.

Finally, the study discovered a significant positive and negative relationship between food firm liquidity and profitability in Pakistan. As a result, businesses must increase their exhibits in order to profit from improved monetary liquidity and firm execution. Firms should use current assets at an optimal level to achieve higher profitability, according to the findings of this study.

5.3 (LIMITATIONS):

This investigation was limited to food companies listed on the Pakistan stock exchange. As a result, the outcomes may not be representative of other businesses. Similarly, the information from the 15 food companies was combined in this study. It is possible that it does not reflect the true situation of each food company, let alone the entire food industry in Pakistan.

The investigation lasted five years, starting in 2014 and ending in 2019. Other monetary components that may influence the presentation of Food corporations may not be included in these five years, thus when they are evaluated, other outcomes or even an off-base end may appear. We used yearly fake elements to try to control these effects.

Another stumbling block is creating a model that would require a specialist to recognize the effect of free factors on subordinates. The necessity to depict the dependent and free elements was especially important when constructing this model. If the model for this assessment was incorrect, the examination procedure would not have yielded the desired findings.

Because of a lack of time, we only chose three autonomous factors (liquidity ratio) and one ward variable (ROA profit ratio) for calculating an association's liquidity status and profitability.

5.4 RECOMMENDATIONS:

Financial Managers ought to keep up harmony among liquidity and profit of an industry. It infers that they should control a tradeoff among liquidity and usefulness. Profit has a fundamental influence in the financial situation of ventures. All partners should must be captivated perspective on the company's liquidity and the company's proficiency.

This investigation suggests that Food firms ought to put more in fluid assets that improve the profitability of the firm to guarantee that it can meet its short-run debt as and when they fall due. Other Financial ratio can't disregard in the profit the board of Food firms. This investigation likewise offers proposals to financial backers that they put assets into the firm having higher liquidity, not in overabundance, which prompts higher profitability.

5.5 SUGGESTIONS & DIRECTION FOR FUTURE WORK:

The study centers around examining recorded firms of the Food area in Pakistan stock trade, so it is far from being obviously true whether these outcomes apply to every modern area or even all auto area firms. Do the business, size, and sort of strong matter? These are a few inquiries that may use as a rule for future examination.

It very well may be propelling to pick a comparative report in various firms of the Food areas of Pakistan or look at the outcomes. This investigation recommended that cross boundary research is completed to close the effect of liquidity on the profit of Food firms with various economies.

This investigation further recommended that various factors might be utilized in future exploration rather than these liquidity ratio (cash ratio, current ratio, and fast ratio) and profitability ratio (return on assets) and (return on value), individually.

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