

# LIQUIDITY AND PROFITABILITY INFLUENCE ON GROWTH OF STOCK PRICE: AN ANALYTICAL STUDY

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## ABSTRACT

Performance at micro-financial phase is the open outcome of administrating different fiscal resources and its impact on exercising within the procedural asset creation and other financial proceedings. The aim of this article is to evaluate the financial performance of sugar sector considering select Sugar Producing Companies classified into small, mid and large cap companies. To achieve the outcome, researcher considered the concepts such as liquidity, solvency, efficiency and profitability which are the most appropriate indicators to predict the growth and performance of the companies. To analyze the liquidity and profitability impact on price growth in shares. Secondary data gathered and included considering periods from 2013-14 to 2022-2023. Secondary data were collected from select sugar companies comprises of Large, Mid and Small cap settings from the period 2013-14 to 2022-23 thus, the work is analytical in nature. Out of 57 firms involved ins Sugar production, researcher randomly considered 10 firms in which 5 are large and another 5 are medium cap Sugar companies that includes sugar firms like Dwarkesh Dalima, Bannari, Balrampur and EID Parry. For analysis, tools employed are Descriptive statistics, Correlation and Structural Equation Modeling (SEM). Final result is achieving profit based on different management policy resolutions. Profitability exhibits the offset of a firm considering its efficient administrative decisions. Higher the quantum, competent is the firm considering its profitability situation, after excluding its operational costs, thus, indicating good profit. In this regard, along with liquidity, stock price also play major role thus, the share price manifest the assets/resources anticipated to record earning opportunities in future. Upsurge in profit augments the firms PER.

**Key Words:** Sugar Companies, Liquidity, Profitability, Stock price, Growth, etc.

## 1. INTRODUCTION

Performance at micro-financial phase is the open outcome of administrating different fiscal resources and its impact on exercising within the procedural asset creation and other financial proceedings. To achieve optimal result in economic front, unique concentrations need to be provided with appropriate grounds during executive level decisions. This need to be on the basis of complicated details with respect to the progression of many kinds of activities conducted within the firm. An unreal portray of a firm's pecuniary situation and its related accomplishments are observed in the yearly financial reports, which thus, becomes the major source of details that are allowed to evaluate qualitatively examining how-far the sources are utilized at the time of initiating the value.

The aim of this article is to evaluate the financial performance of sugar sector considering select Sugar Producing Companies classified into small, mid and large cap companies. To achieve the outcome, researcher considered the concepts such as liquidity, solvency, efficiency and profitability which are the most appropriate indicators to predict the growth and performance of the companies. In this regard, from the list of fifty seven Sugar producing companies, thirty companies were found effective for analysis. Ten financial years from 2013-14 to 2022-2023 were considered for data analysis.

## 2. SUGAR INDUSTRY IN BRIEF

Sugar sector is the major agricultural base business that have [influenced rural sugarcane farmers approximating 50 mn. was their supporting source of life](#), about 5 lakh labours who gain direct employment in sugar mills. Job resources are initiated in different subsidiary activities that are associated with trade services, machinery transports and other supply chain aspects considering the available agricultural inputs. India registers its 2<sup>nd</sup> position with huge production of sugar globally next to Brazil and also a hefty end user. Indian Sugar Mills Association (ISMA), stated that 492 mills operational in India as per the records collected during December 31<sup>st</sup>, 2021 and have generated 115.55 lakh of sugar (in tonnes), as equated to the previous period recorded 110.74 lakh (in tonnes) generated by 481 sugar mills during December 31<sup>st</sup>, 2020. Higher growth was registered during the corresponding period by 4.81 lakh tonnes as compared to previous periods. ISMA described that our nation have the potential of exporting a targeted volume of Rs. 6000 (US\$ 82.11) per tonne as predicted during 2020-21 only possible with export subsidy support.

## 3. CONCEPTS IN BRIEF

Liquidity play a major part in the triumphant role of a corporate enterprises. Liquidity gains undeniable significance to together the in-house and exterior analysts of its secure association with day by day actions of an enterprise[7]. Promising financiers shows much interest in realizing dividends also market appreciation in price factors, therefore they give much concentration towards profitability ratios. Conversely, managers are concerned in determining the performance related to operating profit.

Additionally, corporate enterprises profitability considered based on its capacity to administer and utilize its resources or assets resourcefully in the prime form of enterprise to make revenue or returns[4]. Efficiency based on management and profit making ability were related positively while, depleted current profitability might intimidate current management efficiency also vice versa. Profitability is primarily associated with wealth maximization of shareholders, thus, venturing in current assets is accomplished only if suitable return/revenue are realized among investors [17].

Profitability of commercial enterprises are measured considering the volume by which the returns of a enterprise exceeding corresponding to its expenses. An assessment based on capacity of a management to generate its earnings from its revenue generating origin within a firm [(4);(17)]. Profitability is the firm's capacity to yield revenue by an entire organization's/firm/company or commercial enterprise, and the apprehension of each organisation lies in its profitability base. Profitability is also considered as the rate of return on investment and a broadly employed in measuring financial performance.

With regard to liquidity and profitability focus were conflicting with each other during larger conclusions by financial managers of a firm. Enterprises with elevated liquidity may incur less profit and also with low risk. In contrary, organisations from its results registering minimal liquidity may happen to countenance sharp risk with higher return. Accordingly, an organisation in its day-to-day activity needed to look after its poise between liquidity as well profitability. Thus, part of the introduction briefs about the problem statement followed by the objectives, methodology, hypotheses and limitations.

#### **4. REVIEW OF RELATED LITERATURE**

As indicated by authors liquidity is amount of a firm to disburse its short- term commitments which indicates their end period is below 1 year period. Achieving the financial triumph by an enterprise was through capital investment to make profitability thus, decided by way of net profit margin [17]. Huge monetary charges and inability of an enterprise to disburse its commitments are the outcome of short liquidity [13]. Liquidity conveys the level of autonomy of an enterprise against its creditors and further reveals that the crises or difficulties faced by an organisation[14].

As stated [(18); (5); (6)] the association among liquidity and profitability remains positive predicting that liquidity have tight relationship with everyday conducts therefore, the enquiries on liquidity is vital for the internal and external evaluators (Bhunias, 2010).

A research [1] on Board composition, possession building, and policy on dividends in rising marketplace, result of the outcome confirmed that profitability has significantly explicit impact on dividends payout. In [19] Nigeria compared to evaluate the firm's performance and its Dividends Policy and the outcome of the result indicates that profitability provides a positive impact on dividends payouts.

A study [12] argued that both liquidity as well as profitability are more vital to realize 2 key goals. Profitability is linked with the [wealth amplification of stakeholders](#) and liquidity is vital for the stability of an enterprise. [Tools employed](#) [9] observes that Current ratio is much vital to determine profitability further, cash conversion cycle is more vital to evaluate the liquidity.

A study [3] evaluating the effects of liquidity, solvency and growth in sales to the price growth in shares by employing the Current Ratio as its liquidity component. The research reveals that the Current Ratio did not achieve significant impact on price growth in shares.

## 5. STATEMENT OF THE PROBLEM

The pioneering concerns related to liquidity and profitability that needs consideration from every organizational administration assessing and examining the positions that are inevitable duties of the accounting offers. Liquidity described as a firms capacity to oblige its short term commitments. A weak position of liquidity pose a threat to the profitability and leverages of the companies that makes the firms unstable and perilous. Profitability is measured with the firm's volume of revenue exceeding with its spending. A weak profit position would indicate inefficient administration and stakeholders may hesitate to put-in their faith to invest with the firm. Hence, companies should ensure to maintain equilibrium between two contradicting points such as liquidity and profitability. Liquidity of the firms shall never be too high or very low. In this regard ten Sugar manufacturing companies are considered to analyse the influence, growth in share prices based on liquidity as well as its profitability positions.

## 6. OBJECTIVE

- To analyze the liquidity and profitability impact on price growth in shares

## 7. RESEARCH METHODOLOGY

Research stated as known dialect during exploration of facts. Research is commonly defined as logical and methodical way of exploring for important details based on a particular subject matter. Sequentially, methodology rely on the characteristics of the research work. Appropriate application of methodology becomes elemental portion of any study. Research design is the collective procedures and data combined together with analysis in a appropriate way to exhibit its relevance and economically fulfill the objectives. Secondary data were collected from select sugar companies comprises of Large, Mid and Small cap settings from the period 2013-14 to 2022-23 thus, the work is analytical in nature. Out of 57 firms involved ins Sugar production, researcher randomly considered 10 firms in which 5 are large and another 5 are medium cap [sugar firms like Dwarkesh Dalima, Bannari, Balrampur and](#)

EID Parry. For analysis, tools employed are Descriptive statistics, Correlation and Structural Equation Modeling (SEM).

## 8. HYPOTHESES

1. Positive impact of Liquidity expected on price growth in shares
2. Positive impact of Liquidity expected on Dividend payout
3. Positive impact of Profitability expected on price growth in shares
4. Positive impact of Profitability expected on Dividend payout
5. Positive impact of Dividend payout expected on price growth in shares

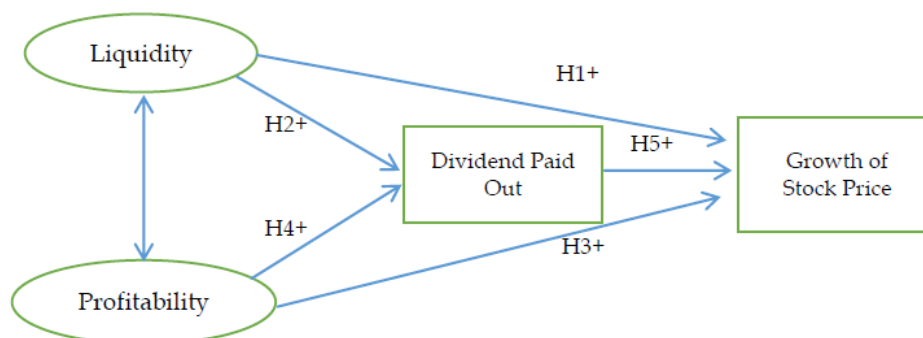
## 9. LIMITATIONS OF THE STUDY

Time and resources were considered as major constraint restricting to conduct a micro level investigation thus, considering only few sugar enterprises. In this regard, various problems would have missed the researcher's attention. The work was conducted to evaluate the select sugar firms considering its financial related performances for a ten years stipulated period of time. Any alterations in the government policy may leap to formulate the suggestions or conclusion outdated.

## 10. ANALYSIS AND RESULTS

Liquidity are denoted by Ratios such as [Quick, Cash & Current ratios](#) expected to have inverse effect on [share price growth](#). The positive indication signifies that rise in liquidity will augment the dividend payouts. The inverse indication signifies rise in liquidity can decline the [share price growth](#). Hence, a model conceptually framed and presented in the Figure 1.

**Figure 1: Conceptual Model and Hypothesis**



### Normality test

As indicated by Santoso (2014) normality assumptions were met by way of critical values falling between  $\pm 2.58$  thus, the distribution was believed as normal, though, the distribution in the analysis absolutely did not achieved the specified norm/threshold

(CR=12.059 more than  $\pm 2.58$  level) was due to different types of financial data of select sugar manufacturing companies that proved to have high variance levels.

**Table 1: Assessment of normality**

Variable	min.	Max.	skew ness	cr	kurtosis	cr
RoCE	.001	.134	1.676	4.838	2.284	3.297
RoE	.540	2.730	1.009	2.912	2.430	3.507
NPM	.020	.710	.713	2.057	.643	.929
CashR	-2.870	42.720	2.876	8.304	13.682	19.748
QR	-2.930	20.230	.757	2.186	.835	1.205
CR	-23.020	54.570	.524	1.511	2.110	3.045
Multivariate					33.420	12.059

### Data Outliers

Ghozali, (2008: 227) asserted that realizing multivariate level outliers are acknowledged by way of Mahalanobis distance. By dropping or eliminating the observed outlier from the centroid value considering the chi-square as its criterion value with the level of validity that denotes the fitness level of a model. The mahalonobis distance recorded 37.095 while the corresponding mean achieved 5.880, thus, observation appropriately proved with the data indicating the observed value distance against the mean value was considered as outlier. In this regard, eight observations were found to be outlier from the data therefore, by eliminating the same multivariate outlier was removed.

**Table 2: Outliers Assessed**

48	37.852	.000
33	26.817	.000
30	16.697	.010
34	14.101	.029
40	13.837	.032
31	12.013	.062
32	11.001	.088
39	9.557	.145

### Test Confirmatory Factor Analysis (CFA)

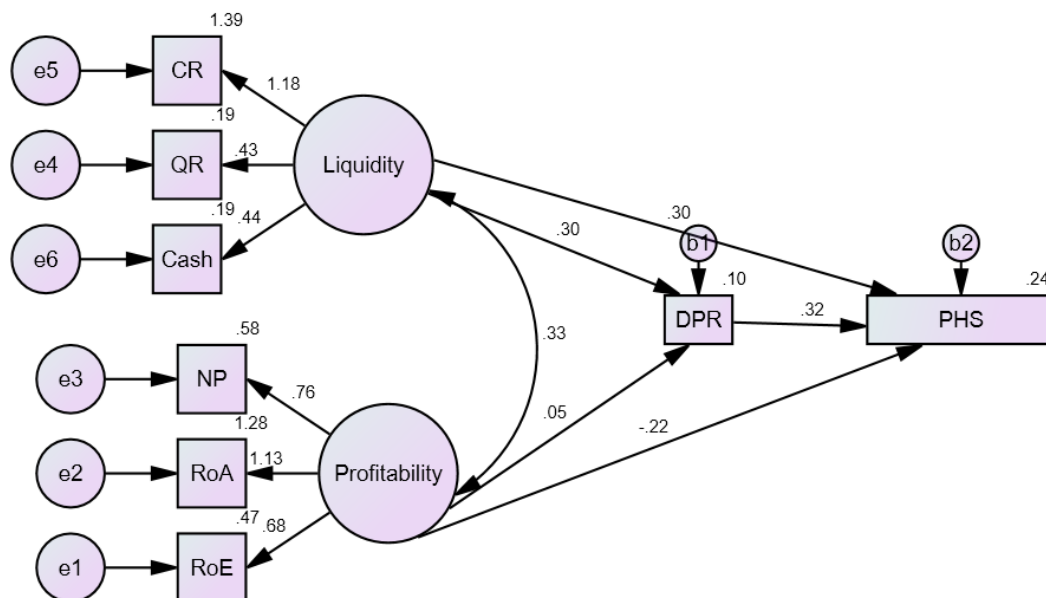
Confirmatory factor analysis is employed to evaluate the variables related with the latent constructs. In this regard, the latent constructs are Liquidity & Profitability measures while, the Liquidity related variables were formed by [Quick, Cash & Current Ratios](#) whereas profitability comprises of RoE, RoA and NPM were used and the outcome signifies that all loadings of the factors were observed significant ( $P < 0.001$ ) therefore, indicating that the

liquidity and profitability based constructs were adequately described by the indicator variables.

**Table 3: CFA Model Regression Weights**

Variables-2	Effect	Variables-1	Estimate	SE	CR	P
RoE	<---	Profitability	1.000			
RoA	<---	Profitability	.471	.059	7.937	***
NP	<---	Profitability	.518	.075	6.907	***
QR	<---	Liquidity	.347	.081	4.265	***
CR	<---	Liquidity	1.000			
Cash	<---	Liquidity	.077	.019	4.117	***

**Figure 2: Liquidity and Profitability influencing Dividend Payout and price growth in shares**



**Table 4: Covariances**

			Estimate	SE	CR	P
Profitability	<-->	Liquidity	1.403	.552	2.540	.011

Model shows Covariance (relationship) of the exogenous constructs represented by liquidity having influence on profitability shows  $\beta=1.403$ ,  $CR=2.540$  and  $Sig.0.011$  observed more than 5% level thus significant @ 5% level.

**Table 5: Model shows regression weights**

			Estimate	SE	CR	P
DPR	<---	Liquidity	1.036	.478	2.169	.030
DPR	<---	Profitability	.009	.018	.493	.622
RoE	<---	Profitability	1.000			
RoA	<---	Profitability	.574	.089	6.449	***
NP	<---	Profitability	.556	.095	5.884	***
QR	<---	Liquidity	.128	.046	2.792	.005
CR	<---	Liquidity	1.000			
Cash	<---	Liquidity	.032	.011	2.806	.005
PHS	<---	Liquidity	.758	.347	2.181	.029
PHS	<---	Profitability	-.027	.013	-2.184	.029
PHS	<---	DPR	.231	.092	2.521	.012

## 11. ANALYSIS RESULTS

### Hypothesis-1

Positive impact of Liquidity expected on price growth in shares

Table 5 shows

The select sugar companies were examined through Liquidity to estimate the price growth in shares recorded CR=0.758, Sig.0.029 indicates direct positive impact ( $P>0.05$ ) considering the  $\alpha$  recording less than 0.05 level, therefore, rejecting  $H_0$ . In this regard, the outcome statistically indicating positive and significant notifying that liquidity established significant positive relationship while predicting the price growth in stock. The coefficient registered 0.758 found to be consistent with the sign asserted, was also significant thus confirming that liquidity possess direct effect on price growth in shares. Results were not parallel with Meythi and Rusli (2011) who evaluated manufacturing companies has observed partial impact of liquidity were not significantly impacting the price growth in shares.

### Hypothesis-2

Positive impact of Liquidity expected on Dividend payout

While assessing the liquidity and Dividend Payout (DPR) relationships shows CR=1.036, Sig.0.030 was found significant impact ( $P<0.05$ ) based on the level of  $\alpha$  recorded less than 0.05, thus rejecting  $H_0$ . Dividend represents cash outflow. Smaller the cash flow of an enterprise indicates weaker its capacity to disburse its dividend. Signifying that the liquidity level among select sugar firms were reasonable thus assuring the reliance of



financial decisions and investment for future expansion of the companies. Considering the sufficiency in cash flow, one unit variation in liquidity augments the dividend payout by 1.036 units which confirms significant among select sugar companies.

### **Hypothesis-3**

Positive impact of Profitability expected on price growth in shares

While assessing the profitability considering its impact on price growth in shares (PHS) records CR=0.027, Sig.0.029 was observed significant with direct impact ( $P < 0.05$ ) based on the  $\alpha$  recording more than 0.05 level, also, rejecting  $H_0$ . It is evident that the profitability of the sugar firms can momentarily augment the value of stock prices that can promisingly generate a positive effect. One unit negative variation in profitability can decrease declines price growth in shares by 0.027 units confirms significant with regard to select sugar companies considered for the study.

### **Hypothesis-4**

Positive impact of Profitability expected on Dividend payout

When assessing the profitability and its effect on Dividend Payout Ratio (DPR) shows CR=0.009, Sig.0.622 was found insignificant ( $P > 0.05$ ) based on the  $\alpha$  recording more than 0.05 level, also, accepting  $H_0$ . Companies profitability can consistently augment the Dividend Payout to the shareholders which may have prospective optimistic effect.

### **Hypothesis-5**

Positive impact of Dividend payout expected on price growth in shares

While examining the dividend payout (DPR) and its impact on price growth in shares (PHS) recorded CR=0.231, Sig.0.012 was observed significant ( $P < 0.000$ ) considering  $\alpha$  is above the 0.05 level, thus rejecting  $H_0$ . The dividend payout ratio evaluates the percentage of profit of select sugar companies paying as dividends. It is clear that the firms are yielding positive earning / net profits were competent enough to disburse its dividends, thus concluding with a positive impact. Result indicates that the select sugar manufacturing companies shall utilize its existing cash or supplement with extra revenue to disburse its dividends.

## **12. SUMMARY OF RESULTS AND DISCUSSIONS**

### **Hypothesis-1**

Positive impact of Liquidity expected on price growth in shares

This outcome of the results also did not provide enough support to the framed signal theory by Godfrey et al. (2006) indicates that executives utilize the account statements from

the annual reports to provide a **hint** on trends and **upcoming** ambitions, where the sign of capacity to offer liquid funds to pay current liabilities points out the variations which be likely to decrease and thus concern to buy shares may diminish the effect on share prices.

### **Hypothesis-2**

Positive impact of Liquidity expected on Dividend payout

Outcome was **go along with the work of [8]**, affirming that a positive impact of liquidity on dividend payout ratio. Likewise, study by [10] was also observed to be parallel with the results while, supporting the theory framed by Riyanto (2011: 267) on dividend policy indicated that liquidity is a major part to be considered by the companies.

### **Hypothesis-3**

Positive impact of Profitability expected on price growth in shares

Observations of the outcome were found consistent with Nurmalasari (2009) who expressed that NPM, RoE and RoA can influence significantly the value of price growth in shares, likewise, Yang et al. (2010) corroborated that elevated profitability perkup the stock price value irrespective of companies.

### **Hypothesis-4**

Positive impact of Profitability expected on Dividend payout

Outcome of the results were not found in line with the results recorded [1] evidences of profitability acquired to have **definite effect also significant** on dividend payout (DPR). Likewise, [19] profitability have **definite effect** on dividend payout (DPR) [15] and [3].

### **Hypothesis-5**

Positive impact of Dividend payout expected on price growth in shares

Findings are not observed to be parallel with Horne and Wachowichz (2013) who signifies that the dividend have significant influence on price growth in shares and the outcome of the study is observed to be in line with [11] also approved that a definite effect between the share price and dividends policies.

## **13. SUGGESTIONS**

- This study identifies the impact of liquidity on profitability of the select sugar companies reflects their financial health. To overcome the financial distress the companies need to improve its management efficiency to avoid the adverse situations by elevating the sales and improving the profitability, earnings and market share of the companies.

- Dividend policies can have significant impact on the stock price of the companies, in this regard the sugar companies shall reasonably maintain its dividend payouts to establish their strength of its share price.
- It is suggested that the sustenance of large companies shall motivate the small and mid-cap companies which will definitely increase market share of select sugar manufacturing companies as a whole.

#### **14. CONCLUSION**

Final result is achieving profit based on different management policy resolutions. Profitability exhibits the offset of a firm considering its efficient administrative decisions. Higher the quantum, competent is the firm considering its profitability situation, after excluding its operational costs, thus, indicating good profit. In this regard, along with liquidity, stock price also play major role thus, the share price manifest the assets/resources anticipated to record earning opportunities in future. Upsurge in profit augments the firms PER.

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