

# **The Impact of Working Capital Management on Profitability of Sri Lankan Trading Companies.**

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## **Abstract**

Working capital management of a firm plays an essential role in improving the operational efficiency of firms and their eventual profitability. It is needed to maintain a proper level of working capital for an organizational sustainability. Therefore, the purpose of this study was to examine the trends of working capital management and its impact on the financial performance of listed trading companies in Colombo Stock Exchange (CSE). Considering the data availability seven trading companies were selected using the purposive sampling method among registered trading companies on CSE. The results of regression show that Inventory turnover in days, Average receivable period and Average payable period have a significant positive relationship on return on equity and return on assets. Furthermore, long ITID, ARP and APP increase the profitability of Sri Lankan trading companies. Finally, it can be used to create a positive value for stockholders of the company. Keeping an optimal level of working capital management of the trading companies will have to increase value of the firm.

**Keywords:** Working Capital Management, Profitability, Sri Lankan Trading Companies, Return on assets, Return on equity.