Profitability Analysis of Listed Manufacturing Companies in Sri Lanka: An Empirical Investigation

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Abstract: This study explores the Profitability Analysis of Listed Manufacturing Companies in Sri Lanka: An Empirical Investigation. The main objective of this study is to analyze the profitability of listed manufacturing companies in Sri Lanka and to identify the key financial and operational factors influencing their profitability. The study is based entirely on **s**econdary data extracted from annual reports of the selected companies published on the CSE, and statistical package for the social sciences (SPSS) software applied to examine the relationship between operational profitability and overall financial performance of listed manufacturing companies in Sri Lanka. The results revealed that the selected companies hold different positions across various profitability indicators such as GPR, NPR, ROE, and ROA. Based on GPR and NPR, Lanka Tiles PLC ranks first, while ACL Cables PLC leads in terms of ROA. The relatively low level of equity capital in Sri Lankan companies can be attributed to several factors, including the underdeveloped equity market, the availability of high interest rates for non-equity investors, the strong aversion to high-risk investments, and the manufacturers' limited use of suitable investment opportunities. However, a higher level of equity investment is essential for the Sri Lankan manufacturing sector to achieve sustainable economic and industrial growth. Thus, a longitudinal study with a larger sample size would be beneficial for gaining deeper insights into the profitability of Sri Lankan manufacturing companies.

Keywords- *Profitability, Financial ratio analysis, return on assets, Return on equity, Gross Profit ratio.*

01. Introduction

The manufacturing sector constitutes a foundation of Sri Lanka's industrial and economic framework, contributing significantly to gross domestic product (GDP), employment creation, and export earnings. As the nation pursues industrial diversification and economic resilience, the financial performance of manufacturing firms has become a focal point for researchers, policymakers, and investors alike. Profitability, as a key indicator of financial health, reflects a firm's ability to generate earnings relative to its sales, assets, and equity, thereby serving as a measure of operational efficiency and long-term sustainability (Gitman & Zutter, 2015).

The analysis of profitability among listed manufacturing companies is particularly relevant in the context of Sri Lanka's evolving economic environment. The sector has been influenced by various macroeconomic and microeconomic factors, including exchange rate volatility, inflationary pressures, supply chain disruptions, and shifts in fiscal policy. The post-pandemic economic recovery and the recent financial crisis have further amplified the need to understand the determinants of profitability within the corporate manufacturing landscape. In this regard, profitability analysis not only aids in assessing corporate efficiency but also provides insights into how firms adapt to changing economic conditions and maintain competitive advantage.

Empirical research on corporate profitability typically employs ratio analysis and econometric techniques to evaluate performance trends and identify determinants influencing profitability. Financial indicators such as gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE) serve as essential tools for comparing performance across firms and over time (Brigham & Ehrhardt, 2019). Previous studies in both developed and emerging markets have established that factors such as firm size, leverage, liquidity, asset turnover, and macroeconomic conditions significantly influence profitability (Nissim & Penman, 2001; Yoon & Jang, 2005). However, limited empirical evidence exists regarding the specific dynamics of profitability in Sri Lanka's manufacturing sector, particularly among firms listed on the Colombo Stock Exchange (CSE).

1.1 Background of the Study

The manufacturing sector plays a pivotal role in Sri Lanka's economic structure, serving as a major driver of industrialization, employment, and export-led growth. According to the Central Bank of Sri Lanka (CBSL, 2024), the manufacturing industry contributes approximately 15–17% of the nation's gross domestic product (GDP) and provides a substantial share of formal sector employment. It encompasses diverse sub-sectors such as food and beverages, textiles and apparel, rubber and plastic products, cement, chemicals, and fabricated metal products. The performance of these industries has a direct influence on the country's trade balance, fiscal stability, and overall economic development.

Over the past decade, Sri Lanka's manufacturing firms have experienced fluctuating performance due to both domestic and global challenges. The sector has been affected by increased production costs, exchange rate volatility, supply chain disruptions, energy shortages, and changes in government tax and trade policies. In addition, the COVID-19 pandemic and subsequent economic crisis in 2022–2023 exerted considerable pressure on manufacturing companies, leading to declines in productivity, profitability, and investor confidence (Asian Development Bank, 2023). These factors have underscored the importance of understanding how internal financial structures and external macroeconomic variables interact to shape corporate profitability.

Listed manufacturing firms on the Colombo Stock Exchange (CSE) represent a significant portion of the industrial sector, with their financial statements providing a reliable source of secondary data for empirical investigation. The CSE's manufacturing index reflects the collective performance of these firms and serves as a barometer for

industrial health. However, despite their economic significance, empirical studies on the determinants and trends of profitability within Sri Lanka's manufacturing sector remain limited. Most existing studies have focused on broader financial performance or specific subsectors, leaving a gap in comprehensive profitability analysis across listed firms (e.g., Perera & Wickramasinghe, 2021).

Profitability analysis provides a systematic approach to assess a firm's ability to generate income relative to its resources and obligations. Financial ratios—such as return on assets (ROA), return on equity (ROE), and net profit margin (NPM)—serve as essential indicators of operational efficiency, management effectiveness, and financial stability (Tulsian, 2014). By examining these indicators across time and firms, researchers can identify performance trends, benchmark industry standards, and evaluate the financial resilience of manufacturing companies in an increasingly competitive environment.

Therefore, this study seeks to fill a critical research gap by conducting an empirical profitability analysis of listed manufacturing companies in Sri Lanka. Through a systematic examination of financial ratio data and firm-specific characteristics, the research aims to provide a clearer understanding of the determinants of profitability, thereby contributing to policy formulation, investment decision-making, and strategic financial management within the Sri Lankan industrial sector.

1.2 Research Gap

Profitability is a key measure of a firm's financial performance, reflecting its capacity to generate returns that sustain operations, reward shareholders, and support future growth. For manufacturing firms, profitability is particularly critical because of their high capital intensity, exposure to input cost fluctuations, and dependence on both domestic and international market conditions. Despite its importance, many Sri Lankan manufacturing companies have reported inconsistent profitability levels over recent years, raising concerns about their financial sustainability and competitiveness.

Data from the Colombo Stock Exchange (CSE) and the Central Bank of Sri Lanka reveal that several listed manufacturing firms have experienced significant variations in profit margins, return on assets, and return on equity during the last decade. These fluctuations have been influenced by multiple factors, including rising production costs, exchange rate volatility, supply chain disruptions, and unstable macroeconomic conditions. Moreover, the recent economic crisis and currency depreciation have intensified financial pressures on manufacturing firms, making profitability performance even more uncertain (CBSL, 2024).

Although a number of studies have been conducted on corporate financial performance in Sri Lanka, there is limited empirical research focusing specifically on the profitability of listed manufacturing companies. Most existing studies have analyzed general financial performance indicators or focused on non-manufacturing sectors such as banking and services (e.g., Jayasundara & Weerasinghe, 2020). Consequently, there is a knowledge gap regarding the specific internal and external determinants influencing profitability in the manufacturing sector such as firm size, leverage, liquidity, asset management efficiency, and macroeconomic variables.

This lack of comprehensive empirical evidence makes it difficult for investors, managers, and policymakers to make informed decisions concerning performance improvement, capital allocation, and policy intervention. Therefore, it is essential to conduct a systematic and data-driven investigation into the profitability of listed manufacturing companies in Sri Lanka. Such an analysis will provide a clearer understanding of the factors that enhance or constrain profitability, thereby contributing to the development of effective financial strategies and the overall growth of the industrial sector.

1.2 Research Objectives

The main objective of this study is to analyze the profitability of listed manufacturing companies in Sri Lanka and to identify the key financial and operational factors influencing their profitability. To achieve this overall aim, the study pursues the following specific objectives:

- To evaluate the profitability performance of listed manufacturing companies in Sri Lanka using key financial ratios such as Return on Assets (ROA), Return on Equity (ROE).
- To identify the determinants of profitability, focusing on firm-specific variables such as return on assets and return on equity.
- To provide empirical insights and recommendations for corporate managers, investors, and policymakers aimed at improving financial performance and competitiveness in the manufacturing sector.

1.3 Research Questions

Based on the above objectives, the study seeks to answer the following research questions:

1. What firm-specific factors significantly influence the profitability of listed manufacturing firms?
2. Is there a significant difference in profitability among different categories or sizes of manufacturing firms listed on the CSE?
3. What strategies can be recommended to enhance the profitability and financial sustainability of listed manufacturing companies in Sri Lanka?

1.4 Significance of the Study

The manufacturing sector is a vital component of Sri Lanka's economy, contributing substantially to industrial growth, employment generation, and export earnings. Understanding the profitability dynamics of listed manufacturing companies is therefore of great importance for various stakeholders, including policymakers, investors, managers, and academics. This study holds significance in several key areas, as outlined below. This research contributes to the existing body of knowledge on corporate financial performance and profitability analysis, particularly within the context of emerging economies. Although numerous studies have been conducted in developed markets, empirical evidence from Sri Lanka remains relatively limited. By focusing on listed manufacturing companies, this study provides context-specific insights into how firm-level and macroeconomic factors jointly influence profitability. The findings are expected to bridge a crucial gap in the literature and serve as a reference for future studies in accounting, finance, and industrial economics.

In the manager's point of view this study offers practical insights into the financial and operational determinants that affect profitability. Corporate managers can utilize the results to identify internal factors—such as cost management, capital structure, and liquidity control—that significantly influence financial performance. By understanding these determinants, management teams can develop informed strategies to enhance operational efficiency, optimize resource allocation, and improve return on investment.

Investors can get valuable information for decision-making regarding portfolio diversification and risk assessment. Profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) serve as critical indicators of financial stability and performance potential. Thus, the findings of this research can help investors identify financially sound companies within the manufacturing sector and make evidence-based investment choices.

In summary, this study is significant because it not only enriches the theoretical understanding of corporate profitability but also offers actionable implications for practitioners, investors, and policymakers. The results will contribute to both academic discourse and practical strategies for enhancing the profitability and resilience of Sri Lanka's manufacturing sector in a dynamic economic environment.

1.5 Scope of the Study

This study focuses on the profitability analysis of listed manufacturing companies in Sri Lanka. The research primarily uses secondary data obtained from the financial statements of companies listed on the Colombo Stock Exchange (CSE) and relevant reports published by the Central Bank of Sri Lanka, annual reports, and industry publications. The study covers a defined period of 2021-2025 allowing for a longitudinal analysis of profitability trends over time. The analysis concentrates on key profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) and other relevant financial ratios to assess the financial performance of selected manufacturing firms.

1.6 Limitations of the Study

Despite its academic rigor, this research has several limitations that should be acknowledged:

Data Constraints: The study relies exclusively on secondary financial data, which may not capture all operational, strategic, or qualitative factors influencing profitability.

Sector Limitation: The focus on listed manufacturing companies excludes other sectors of the economy, and the findings may not be generalizable to non-listed firms or small and medium enterprises (SMEs).

Time Frame: The selected study period may be influenced by unexpected economic events (e.g., COVID-19 pandemic, economic crisis), which could affect the interpretation of profitability trends.

Macroeconomic Variables: While key macroeconomic factors are considered, other external factors such as government policy changes, global market dynamics, and technological advancements may also influence profitability but are beyond the scope of this study.

02. Review of Literature

Profitability represents one of the most fundamental measures of a firm's financial performance and long-term sustainability. It reflects the efficiency with which a company utilizes its assets and equity to generate earnings. According to Gitman and Zutter (2015), profitability ratios such as return on assets (ROA), return on equity (ROE), and net profit margin (NPM) are essential indicators for evaluating how effectively firms manage their resources to achieve superior financial outcomes. Theoretically, profitability analysis draws from both accounting and financial management perspectives, emphasizing that the ability to generate profit depends on operational efficiency, cost control, and strategic financial decisions. Nissim and Penman (2001) proposed a decomposition model of profitability that highlights the interaction among operating margins, asset turnover, and financial leverage, demonstrating how each component contributes to overall firm performance.

Empirical studies across the world have investigated numerous factors influencing profitability. Among the most widely examined determinants are firm size, leverage, liquidity, and asset management efficiency. Larger firms are often found to be more profitable because they benefit from economies of scale, greater market power, and

easier access to financial resources. However, some studies report a negative or insignificant relationship, suggesting that excessive size may lead to bureaucratic inefficiencies (Brigham & Ehrhardt, 2019). The capital structure of a firm also plays a crucial role: while moderate debt can enhance profitability through tax advantages, excessive leverage may reduce net returns due to increased financial risk and interest obligations. Liquidity is another important variable that affects profitability. Maintaining sufficient liquidity ensures operational stability and reduces financial distress risk, yet excessive liquidity can imply idle funds and lower returns. Efficiency in asset utilization, reflected by asset turnover ratios, also determines how effectively firms convert their resources into sales and profits. Beyond firm-specific characteristics, macroeconomic variables such as inflation, exchange rate movements, and interest rates exert significant influence on corporate profitability by altering production costs and demand conditions.

Globally, several empirical studies have reinforced these relationships. Nissim and Penman (2001) demonstrated that ratio decomposition provides insights into the sustainability of firm profitability. Similar findings have been reported by Yoon and Jang (2005) and by subsequent research conducted in both developed and emerging economies, which collectively affirm that internal financial management and external economic factors jointly shape profitability outcomes. Recent studies have further expanded the discussion to include operational efficiency, cost management practices, and governance mechanisms as critical contributors to profitability performance.

In the Sri Lankan context, research on the profitability of listed manufacturing firms remains relatively limited compared with developed markets. Nishanthini and Nimalathasan (2013, 2014) examined a sample of listed manufacturing companies between 2006 and 2010 and reported that the overall profitability level was below expectation, largely due to cost inefficiencies and poor working-capital management. Their study recommended more comprehensive and updated analyses encompassing a broader set of determinants. Pratheepan (2014) extended this line of inquiry by applying panel-data techniques to 55 listed manufacturing firms from 2003 to 2012 and found that firm size, leverage, and liquidity significantly affected profitability. However, the results varied across firms, implying that determinants of profitability are firm-specific and influenced by economic conditions. Later studies have focused on particular factors such as liquidity management (Jayathilaka, 2016) or firm size (Wijesinghe & Fernando, 2018), but few have integrated both firm-level and macroeconomic variables within a unified analytical framework. Comparative studies between Sri Lanka and other emerging markets, such as Malaysia and India, also highlight structural and policy differences that impact profitability performance.

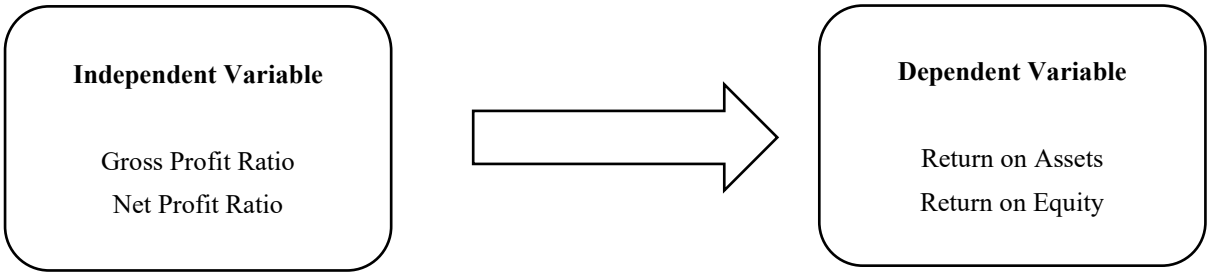
Despite these contributions, notable research gaps persist. Most existing Sri Lankan studies employ relatively short time spans and do not account for recent economic shocks, such as the COVID-19 pandemic or the 2022–2023 financial crisis, both of which substantially affected industrial output and firm performance. Moreover, the majority of prior research focuses on limited variables and does not integrate profitability decomposition with broader macroeconomic influences. There is also insufficient differentiation across manufacturing sub-sectors—such as food and beverages, textiles, and rubber products—even though these industries operate under distinct cost structures and market dynamics. Methodologically, earlier studies rely mainly on simple regression or correlation analyses, while more advanced econometric techniques like panel fixed effects, random effects, or dynamic system-GMM estimators remain underutilized.

Given these gaps, the present study aims to provide an updated and comprehensive empirical analysis of the profitability of listed manufacturing companies in Sri Lanka. By employing secondary data from the Colombo Stock Exchange and incorporating both firm-specific and macroeconomic variables, this study seeks to identify the major determinants of profitability, assess their relative influence, and offer policy-relevant insights. The findings are expected to extend the existing literature by demonstrating how profitability performance has evolved in

the post-crisis period and by highlighting the internal and external factors that drive financial success within Sri Lanka's manufacturing sector.

03. Methodology

3.1 Conceptual Framework



3.2 Operationalization

Table 1: Operationalization

Variable Type	Variable Name	Definition	Measurement
Independent Variable	Gross Profit Ratio	Operational profitability before operating & non-operating expenses	GPR = (Gross Profit / Net Sales) × 100
	Net Profit Ratio	Overall profitability after all expenses.	NPR = (Net Profit After Tax / Net Sales) × 100
Dependent Variable	Return on Assets	Overall profitability relative to total assets	ROA = (Net Profit After Tax / Total Assets) × 100
	Return on Equity	Profitability attributable to shareholders' equity	ROE = (Net Profit After Tax / Shareholders' Equity) × 100

3.3 Hypothesis

H_1: There is a significant relationship between Gross Profit Ratio (GPR) and Return on Assets (ROA) of listed manufacturing companies in Sri Lanka.

H_2: There is a significant relationship between Gross Profit Ratio (GPR) and Return on Equity (ROE) of listed manufacturing companies in Sri Lanka.

H_3: There is a significant relationship between Net Profit Ratio (NPR) and Return on Assets (ROA) of listed manufacturing companies in Sri Lanka.

H_4: There is a significant relationship between Net Profit Ratio (NPR) and Return on Equity (ROE) of listed manufacturing companies in Sri Lanka.

3.4 Research Design

This study adopts a quantitative, correlational, and explanatory research design to examine the relationship between operational profitability and overall financial performance of listed manufacturing companies in Sri Lanka.

Population and Sample

The population of the study consists of all manufacturing companies listed on the Colombo Stock Exchange (CSE). As of the selected study period, there are approximately thirty-eight listed manufacturing Companies.
A purposive sampling method is applied to select companies that meet the following criteria:

- Continuous listing on the CSE throughout the study period.
- Availability of complete financial statements for the selected years.
- Firms not engaged in mergers, acquisitions, or restructuring during the period that could distort financial results.

Based on these criteria, a final sample of 10 manufacturing companies is used for empirical analysis.

3.5 Data Collection

The study is based entirely on secondary data extracted from annual reports of the selected companies published on the CSE website and company portals. Additional macroeconomic and sectoral data are obtained from the Central Bank of Sri Lanka, Department of Census and Statistics, and other reliable financial databases. The study period spans five years 2021-2025, ensuring that results reflect both pre- and post-crisis financial conditions.

Data Analysis Techniques

Data will be analyzed using both descriptive and inferential statistical techniques:

- Descriptive Statistics: Mean, standard deviation, minimum, and maximum values will be calculated to summarize the characteristics of each variable.
- Correlation Analysis: Pearson's correlation coefficient will be used to examine the strength and direction of the relationships among variables.
- Regression Analysis: Multiple linear regression models will be applied to test the hypotheses and determine the effect of Gross Profit Ratio and Net Profit Ratio on profitability indicators (ROA and ROE).

The general form of the regression model is specified as follows:

$$ROAi=\beta_0+\beta_1GPRi+\beta_2NPRi+\varepsilon i$$

$$ROEi=\beta_0+\beta_1GPRi+\beta_2NPRi+\varepsilon i$$

Where:

ROA_i = Return on Assets of firm *i*
ROE_i = Return on Equity of firm *i*
GPR_i = Gross Profit Ratio of firm *i*
NPR_i = Net Profit Ratio of firm *i*
β_0 = Intercept
β_1, β_2 = Regression coefficients
ε_i = Error term

04. Results and Discussions.

The important ratio is taken to measure the comparison of profitability of the manufacturing companies. The important ratios are; Gross profit Ratio, Net profit Ratio, return on assets, Return on Equity, Reliability and validity of the Data. Secondary data are used or the study (i.e., income statements and balance sheets) of the companies therefore; these data may be considered reliable for the purpose of the study.

Gross Profit Ratio

Gross profit plays a vital role in any business. The gross profit ratio is derived from net sales and shows the relationship between sales and gross profit. It should be adequate to cover all operating expenses and still yield a profit. There is no fixed norm or standard for interpreting the gross profit ratio (GP ratio); however, a higher ratio is generally considered favorable. This ratio can be used to assess a company's performance by comparing it with similar firms in the same industry. An increase in the gross profit ratio over the years indicates improvement. When making comparisons, analysts should ensure that the companies use similar accounting systems and practices.

The gross profit ratio also reflects a company's purchasing efficiency. A higher ratio indicates greater efficiency and good management, as it suggests that the firm's production costs are relatively low. Conversely, a consistently low gross profit ratio serves as a warning signal, suggesting inefficiency or potential financial problems.

Table 1: Gross Profit Ratio of the Selected Companies (in %)

Name of the Company	2021	2022	2023	2024	2025	TOTAL	AVG	SD
Hayleys PLC	23.41	25.14	22.89	21.38	25.00	117.82	23.564	1.399551
CIC Holdings PLC	25.9	27.60	35.88	27.11	26.7	143.19	28.638	3.66364
Richard Peris & Co PLC	26.2	28.9	29.28	21.85	26.17	132.4	26.48	2.65736
ACL Cables PLC	16.98	22.45	36.45	24.47	27.27	127.62	25.524	6.418509
Royal Ceramics Lanka PLC	41.65	31.59	34.9	31.59	31.6	171.33	34.266	3.907811
Kelani Cables Limited	13.3	21.55	29.5	23.2	23.42	110.97	22.194	5.204051
Renuka Foods PLC	9.85	16.82	19.26	12.66	14.2	72.79	14.558	3.259487
Lanka Tiles PLC	37.6	45.3	45.1	46.26	31.60	205.86	41.172	5.70508
Laxapana PLC	31.06	26.53	40.11	26.07	25.18	148.95	29.79	5.546772
Keels Foods Products PLC	27.53	24.81	27.04	22.02	27.31	128.71	25.742	2.100585

The gross profit ratios of the companies for the study period have been shown in the table 1. Table 1 shows that the gross profit of the Hayleys PLC, CIC Holdings PLC, Richard Peris & Co PLC, ACL Cables PLC, Royal Ceramics Lanka PLC, Kelani Cables Limited, Renuka Foods PLC, Lanka Tiles PLC, Laxapana PLC and Keels Foods Products PLC during the period 2021 to 2025. This showed an upward trend of CIC Holdings PLC, ACL Cables during the period from 2021 to 2025; at the same time rest of the companies' shows down ward and flexible trend. It is not a good sign for the company. This is perhaps due to competition in the market and slow growth in the economy of the country. The average gross profit ratio of Lanka Tiles PLC is 41.172%, which is high percentage compare with other companies, which shows about the companies' high performance of gross profit earning, on the other hand Renuka Foods PLC have to improve their performance immediately in future. ACL Cables PLC highest variation of gross profit over the years (highest variation over the year is 6.41%). It is the good sign for these companies, because whish is in safety position that mean both companies showing increasing trend after 2021, which speaks about the stability of gross profit earning of this companies.

Net Profit Ratio

This ratio shows the net profit after making a sale. The earnings in terms of sales can be assesses through the profit margin ratio which is calculated by dividing the earnings before interest and taxes by sales. This ratio is widely used as measure of overall profitability and is very useful to the company. There is also no fixed norm of judging the net profit ratio.

Table 2: Net profit ratio of the selected companies (in %)

Name of the Company	2021	2022	2023	2024	2025	TOTAL	AVG	SD
Hayleys PLC	3.17	8.3	5.68	3.4	4.57	25.12	5.024	1.867797
CIC Holdings PLC	10.33	8.82	14.64	14.42	6.1	54.31	10.862	3.288224
Richard Peris & Co PLC	8.93	7.4	7.86	1.38	4.9	30.47	6.094	2.702396
ACL Cables PLC	7.76	17.65	23.26	11.8	14	74.47	14.894	5.269754
Royal Ceramics Lanka PLC	8.43	17.81	12.26	8.4	8.33	55.23	11.046	3.699917
Kelani Cables Limited	6.43	14.12	24.31	12.32	13.03	70.21	14.042	5.78567
Renuka Foods PLC	-2.13	6.85	2.45	-4.31	-1.87	0.99	0.198	3.983438
Lanka Tiles PLC	19.4	28.1	19.74	18.05	8.57	93.86	18.772	6.212006
Laxapana PLC	11.25	11.53	14.63	25.57	5.0	67.98	13.596	6.754393
Keels Foods Products PLC	8.79	7.16	0.22	-3.76	1.98	14.39	2.878	4.587411

The net profit ratios of the sample companies are shown in table 2. According to the table 2 the net profit ratio of ACL Cables, Royal Ceramics showed increasing trend during the year from 2021 to 2025. At the same time Renuka Foods PLC and Keels Foods Products PLC showed decreasing trend. On the other hand, other companies within selected companies shows flexible trend from 2021 to 2025, even though average net profit ratio of Lanka Tiles PLC was 18.772%. It was a higher value compare than others and also standard deviation of 6.21% indicate extremely attractive position. Laxapana PLC standard deviation was 6.75% while showing increasing trend over the years it indicates that the company's stable position. Other companies have to improve their performance in future.

Return on Equity

Another important measure of performance is Return on Equity (ROE), a performance measure closely monitored by many investors to decide whether the company is creating an adequate return for their investment. By measuring how much profit a company can generate from assets financed by equity capital, ROE offers a superior measure of companies' profit-generating efficiency. This helps investors to determine companies' ability to generate profit from their operations through competitive advantages. In this respect, ROE analysis across countries provides valuable information for potential investors to assess the attractiveness of a particular country for equity investment opportunities.

Table 3: Return on Equity Ratio of the selected companies (in%)

Name of the Company	2021	2022	2023	2024	2025	TOTAL	AVG	SD
Hayleys PLC	16.31	27.09	8.59	16.31	6.39	74.69	14.938	7.28
CIC Holdings PLC	13.6	24	34	13.72	21.03	106.35	21.27	7.56
Richard Peris & Co PLC	17.28	13.71	2.33	-5.65	8.5	36.17	7.234	8.18
ACL Cables PLC	11.48	25.39	25.54	11.11	9.64	83.16	16.632	7.24
Royal Ceramics Lanka PLC	16.4	9.5	8.7	9.91	9.44	53.95	10.79	2.83
Kelani Cables Limited	16.9	31.77	18.37	16.8	18.9	102.74	20.548	5.67
Renuka Foods PLC	7.25	13.43	-7.10	-14.23	4.1	3.45	0.69	10.00
Lanka Tiles PLC	27.5	37.10	29.32	20.82	6.6	121.34	24.268	10.24
Laxapana PLC	-8.61	17.2	-1.7	-8.61	17.16	15.44	3.088	11.78
Keels Foods Products PLC	16.24	7.84	-8.25	-10.99	7.84	12.68	2.536	10.42

The analysis of ROE among Listed manufacturing companies from 2021 to 2025 with the average ROE and Standard deviation for the five-year period is shown in Table 3. This showed an upward trend of Lanka Tiles PLC, CIC Holdings, Royal Ceramics Lanka Ltd (RCL) from 2021 to 2025; at the same time rest of the companies' shows down ward and flexible trend. The average ROE of Lanka Tiles PLC is 24.268% which is high percentage compare with other companies, which shows about the companies' high performance on Return on Equity, and other company have to improve their earning immediately in future.

If manufacturing companies can provide a much higher ROE for their investors, then they have much greater opportunities for increasing equity investment in their manufacturing sector. Obviously, increased investment is crucial for achieving industrial and economic growth in developing countries as the size of average equity investment in manufacturing companies in many developing countries is generally lower than that of developed countries. The low levels of equity investment seem to be due to several factors, such as the relatively poor equity markets, the high interest rates available to non-equity investors, the greater fear of high-risk investment and the manufacturers' inadequate exploitation of further investment opportunities.

Return on Asset

Return on Asset (ROA) is an indicator of how profitable company's assets are in generating profit. Return on Assets ratio gives an idea of how efficient management is at using its assets to generate profit. Return on Assets can vary substantially across different industries. This is the reason why it is recommended to compare it against company's previous values or the return of a similar company. The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of company's assets.

Return on Assets is one of the profitability ratios and is usually expressed as a percentage Since company assets' sole purpose is to generate revenues and produce profits, this ratio helps both management and investors see how well the company can convert its investments in assets into profits. You can look at ROA as a return on investment for the company since capital assets are often the biggest investment for most companies. In this case, the company invests money into capital assets and the return is measured in profits.

Table 4: Return on Assets Ratio of the selected companies (in%)

Name of the Company	2021	2022	2023	2024	2025	TOTAL	AVG	SD
Hayleys PLC	5.43	6.10	9.09	6.01	6.85	33.48	6.696	1.28
CIC Holdings PLC	4.3	9.43	17	19	15.45	65.18	13.036	5.41
Richard Peris & Co PLC	13	10.1	4.94	-1.76	3.93	30.21	6.042	5.13
ACL Cables PLC	6.9	16.8	20.1	9.3	13.7	66.8	13.36	4.81
Royal Ceramics Lanka PLC	3.92	11.42	10.42	13.0	6.8	45.56	9.112	3.30
Kelani Cables Limited	8.9	7.84	6.82	12.35	14.5	50.41	10.082	2.89
Renuka Foods PLC	-1.06	-5.9	7.76	-2.85	-0.93	-2.98	-0.596	4.55
Lanka Tiles PLC	12.14	17.84	18.48	13.11	3.91	65.48	13.096	5.23
Laxapana PLC	7.19	4.81	3.2	1.57	6.13	22.9	4.58	2.01
Keels Foods Products PLC	10.78	2.02	0.33	0.36	-5.28	8.21	1.642	5.19

The analysis of ROA among Listed manufacturing companies from 2021 to 2025 with the average ROA and Standard deviation for the five-year period is shown in Table 4. This showed an upward trend of ACL Cables, CIC Holdings, Kelani Cables from 2021 to 2025; at the same time rest of the companies' shows down ward and flexible trend. The average ROA of ACL Cables is 13.36% which is high percentage compare with other companies, which shows about the companies' high performance on Return on Asset and other company have to improve their earning immediately in future.

Average Rate

Table 5: Average profitability ratio of the selected companies (in %)

Name of the Company	Average Gross Profit Ratio	Average Net Profit Ratio	Average Return on Equity	Average Return on Assets
Hayleys PLC	23.564	5.024	14.938	6.696
CIC Holdings PLC	28.638	10.862	21.27	13.036
Richard Peris & Co PLC	26.48	6.094	7.234	6.042
ACL Cables PLC	25.524	14.894	16.632	13.36
Royal Ceramics Lanka PLC	34.266	11.046	10.79	9.112
Kelani Cables Limited	22.194	14.042	20.548	10.082
Renuka Foods PLC	14.558	0.198	0.69	-0.596
Lanka Tiles PLC	41.172	18.772	24.268	13.096
Laxapana PLC	29.79	13.596	3.088	4.58
Keels Foods Products PLC	25.742	2.878	2.536	1.642

The highest GPR is recorded by Lanka Tiles PLC (41.17%), showing strong control over production costs and a high markup on sales. The lowest is Renuka Foods PLC (14.56%), indicating lower production efficiency or tighter margins. Overall, most companies maintain a healthy GPR above 20%, reflecting good cost management in the manufacturing sector. Renuka Foods PLC (0.20%) reports the lowest NPR, nearly breakeven, indicating challenges in managing administrative and financial costs. The best ROE is from Lanka Tiles PLC (24.27%), reflecting efficient use of shareholders' funds. CIC Holdings PLC (21.27%) and Kelani Cables Limited (20.55%) also show strong shareholder returns. Keells Food Products PLC (1.64%) and Laxapana PLC (4.58%) also show relatively low asset returns.

05. Conclusion

According to Walker (1974), return on assets (ROA) is considered the most appropriate indicator of profitability. In light of this, it can be concluded that the profitability of the selected manufacturing companies is relatively unsatisfactory. The results and analysis reveal that the selected companies hold different positions across various profitability indicators such as GPR, NPR, ROE, and ROA. Based on GPR and NPR, Lanka Tiles PLC ranks first, while ACL Cables PLC leads in terms of ROA. The relatively low level of equity capital in Sri Lankan companies can be attributed to several factors, including the underdeveloped equity market, the availability of high interest rates for non-equity investors, the strong aversion to high-risk investments, and the manufacturers' limited use of suitable investment opportunities. However, a higher level of equity investment is essential for the Sri Lankan manufacturing sector to achieve sustainable economic and industrial growth. Future research should focus on examining the influence of factors such as company size, age, location, export orientation, asset and capital structure, labour costs, employee productivity, and managerial efficiency on profitability. Therefore, a longitudinal study with a larger sample size would be beneficial for gaining deeper insights into the profitability of Sri Lankan manufacturing companies.

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