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**FINANCIAL SOUNDNESS AND GROWTH:**  
**Special reference to listed Manufacturing Companies**  
**(Capital Goods) in Sri Lanka**

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Thesis/Dissertation submitted in partial fulfillment of the requirement for  
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## DECLARATION

I declare that this is my own work, and this dissertation does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any other University or Institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text. I retain the right to use this content in whole or part in future works (such as articles or books).

Signature:

Date:05-02-2025

The above candidate has carried out research for the Masters dissertation under my supervision. I confirm that the declaration made above by the student is true and correct.

Name of Supervisor: Dr. Dimithri Devinda Jayagoda

Signature of the Supervisor:

Date:05-02-2025

## DEDICATION

*I would like to dedicate this dissertation to*

*My loving parents*

*who have been*

*my constant source of inspiration*

## **ACKNOWLEDGMENT**

I am sincerely grateful for the opportunity to submit this research on Financial Soundness and Growth in the Manufacturing sector: Capital Goods of the CSE. I send my heartfelt appreciation to my supervisor, Senior Lecturer Dr. Dimithri Devinda Jayagoda, who provided essential support throughout the research process. I would also like to express my sincere appreciation to Dr. J.A.D. Muran Dencil, Head of the Department, for his unwavering support.

My heartfelt gratitude goes out to my parents and friends whose encouragement played a pivotal role in the successful completion of this research study. Finally, I extend my sincere thanks to all who contributed to the success of this research in various ways. Your support is truly appreciated.

## ABSTRACT

The financial strength of listed companies is a critical concern for various stakeholders, including investors, management, and regulatory bodies. This study aims to explore the impact of financial soundness on the growth of listed manufacturing companies in the Capital Goods sector in Sri Lanka. Specifically, the research focuses on ten manufacturing companies traded on the CSE over a period of five years (2019-2023). The primary research question addresses the relationship between financial soundness and growth in these manufacturing companies: Capital Goods.

Financial soundness is measured using the Z-Score (Altman's model), a widely recognized indicator of financial health. Growth is assessed through three key metrics: market value growth, profit growth, and current ratio growth. In this study, financial soundness serves as the independent variable, while growth metrics are the dependent variables. The analysis employs descriptive statistics and simple linear regression techniques to examine these relationships. Secondary data is sourced from the financial reports of the selected companies for the specified period.

The findings of this study reveal there is a significant positive relationship between financial soundness and net profit growth, indicating that financially robust companies tend to experience higher net profit growth. The analysis also uncovered a significant relationship between financial soundness and market value growth. This implies that financially sound companies are more likely to increase their market valuation, potentially due to investor confidence and their ability to perform well in the market. The study also shows a substantial association between financial soundness and current ratio increase. The current ratio reflects a company's capacity to satisfy its short-term obligations, so this finding suggests that financially sound companies are also improving their liquidity over time.

The study's significance lies in its contribution to the understanding of financial health and growth dynamics within the context of an emerging market. Policymakers and corporate managers can leverage these insights to develop strategies that enhance financial stability and drive sustainable growth. Additionally, this research addresses a gap in the literature concerning the Sri Lankan manufacturing sector specially to Capital goods, providing a foundation for future studies.

However, several limitations must be acknowledged. The study's reliance on secondary data may introduce biases related to data accuracy and reporting standards. Moreover, the analysis is confined to a five-year period, which may not capture long-term trends and cyclical economic variations. The sample size of ten companies, though reflective of the sector, limits the generalizability of the findings. Future research could expand the sample size, extend the analysis period, and incorporate additional variables to provide a more comprehensive understanding of the financial soundness-growth nexus.

In conclusion, this study underlines the complex relationship between financial health and growth within Sri Lanka's manufacturing sector, providing valuable insights for stakeholders focused on promoting economic development and enhancing corporate resilience.

***Keywords:*** *Altman Model, financial soundness, growth*

## TABLE OF CONTENTS

|  |             |
|--|-------------|
| <b>DECLARATION</b> .....                           | <b>i</b>    |
| <b>DEDICATION</b> .....                            | <b>ii</b>   |
| <b>ACKNOWLEDGMENT</b> .....                        | <b>iii</b>  |
| <b>ABSTRACT</b> .....                              | <b>iv</b>   |
| <b>TABLE OF CONTENTS</b> .....                     | <b>vi</b>   |
| <b>LIST OF FIGURES</b> .....                       | <b>viii</b> |
| <b>LIST OF TABLES</b> .....                        | <b>ix</b>   |
| <b>LIST OF ABBREVIATIONS</b> .....                 | <b>x</b>    |
| <b>CHAPTER 01</b> .....                            | <b>1</b>    |
| <b>INTRODUCTION</b> .....                          | <b>1</b>    |
| 1.1 Background of the Research.....                | 1           |
| 1.2 Research Question and Objectives .....         | 3           |
| 1.2.1 Research question .....                      | 3           |
| 1.2.2 Research Objectives.....                     | 3           |
| 1.3 Research Methodology .....                     | 3           |
| 1.4 Significance of the Study.....                 | 4           |
| 1.5 Limitations of the Study .....                 | 5           |
| 1.6 Summary and Chapter Organization.....          | 6           |
| <b>CHAPTER 02</b> .....                            | <b>8</b>    |
| <b>LITERATURE REVIE</b> .....                      | <b>8</b>    |
| 2.1 Introduction.....                              | 8           |
| 2.2 Theoretical Framework and Literature .....     | 9           |
| 2.2.1 Financial Strengths.....                     | 9           |
| 2.2.2 Theoretical Background of Altman Model ..... | 10          |
| 2.2.3 Altman Model Critical Financial Ratios ..... | 14          |
| 2.2.4 Growth .....                                 | 19          |
| 2.2.5 Theoretical Background of Growth .....       | 20          |
| 2.3 Summary.....                                   | 24          |
| <b>CHAPTER 03</b> .....                            | <b>25</b>   |
| <b>METHODOLOGY</b> .....                           | <b>25</b>   |
| 3.1 Introduction.....                              | 25          |
| 3.2 Research Design .....                          | 25          |
| 3.3 Populations and Sampling .....                 | 26          |

|   |           |
|---|-----------|
| 3.4 Data Collection .....                           | 26        |
| 3.5 Variables.....                                  | 27        |
| 3.6 Conceptual Framework.....                       | 28        |
| 3.7 Hypotheses.....                                 | 28        |
| 3.8 Data analysis .....                             | 29        |
| 3.9 Summary.....                                    | 29        |
| <b>CHAPTER 04 .....</b>                             | <b>31</b> |
| <b>RESULTS AND FINDINGS .....</b>                   | <b>31</b> |
| 4.1. Introduction.....                              | 31        |
| 4.2. Z-Score Analysis.....                          | 31        |
| 4.2.1. Ratio Analysis for Z-Score Calculation ..... | 32        |
| 4.2.2. Analysis of Z -Score.....                    | 35        |
| 4.3 Regression Analysis.....                        | 36        |
| 4.3.1 The Quantitative Data Collection .....        | 36        |
| 4.3.2 Test of Normality .....                       | 36        |
| 4.4.3 Test of Linearity.....                        | 40        |
| 4.4.4 Regression Results.....                       | 42        |
| 4.4 Summary.....                                    | 46        |
| <b>CHAPTER 05 .....</b>                             | <b>49</b> |
| <b>CONCLUSION.....</b>                              | <b>49</b> |
| 5.1 Overview of the Study .....                     | 49        |
| 5.2 Key Findings and Conclusion.....                | 50        |
| 5.3 Implications of the Study.....                  | 51        |
| 5.4 Limitations of the study .....                  | 52        |
| 5.5. Future Research Directions.....                | 52        |
| <b>REFERENCE .....</b>                              | <b>53</b> |

## LIST OF FIGURES

|   |    |
|---|----|
| Figure 3.1: Conceptual Framework.....   | 28 |
| Figure 4.1: Graphical presentation of Positions of Selected Ratios of Selected Companies..... | 34 |
| Figure 4.2: Histogram of Z score .....  | 37 |
| Figure 4.3: Q-Q Plot of Z Growth.....   | 37 |
| Figure 4.4: Histogram of Net Profit Growth.....   | 38 |
| Figure 4.5: Q-Q Plot of Net Profit Growth .....   | 38 |
| Figure 4.6: Histogram of Market Value Growth .....  | 39 |
| Figure 4.7: Q-Q Plot of Market Value Growth.....  | 39 |
| Figure 4.8: Histogram of Current ratio Growth .....   | 40 |
| Figure 4.9: Q-Q Plot of Current ratio Growth.....   | 40 |
| Figure 4.10: Normal Probability Plot of Net Profit Growth.....                                | 41 |
| Figure 4.11: Normal Probability Plot of market value growth.....                              | 41 |
| Figure 4.12: Normal Probability Plot of current ratio Growth.....                             | 42 |
| Figure 4.13: Residual Plot of Net Profit Growth.....  | 47 |
| Figure 4.14: Residual Plot of Market value Growth .....                                       | 47 |
| Figure 4.15: Residual Plot of Current ratio Growth.....                                       | 48 |

## LIST OF TABLES

|   |    |
|---|----|
| Table 4.1: Positions of Selected Ratios of Selected Companies ..... | 32 |
| Table 4.2: Analysis of Z-Score.....                                 | 35 |
| Table 4.3: Regression Coefficient – Net Profit Growth.....          | 44 |
| Table 4.4: Regression Coefficient – Market value Growth.....        | 45 |
| Table 4.5: Regression Coefficient – Current ratio Growth.....       | 46 |

## LIST OF ABBREVIATIONS

| <b>Abbreviation</b> | <b>Description</b>                        |
|---------------------|---|
| CSE                 | - Colombo Stock Exchange                  |
| GDP                 | - Gross Domestic Production               |
| GICS                | - Global Industry Classification Standard |
| MDA                 | - Multiple Discriminant Analysis          |
| WC                  | - Working Capital                         |