

Determinants of the Profitability of Listed Finance Companies in Sri Lanka

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Listed finance companies play a key role in Sri Lankan economy and the well-being of the finance companies is very critical to the development of the economy. Profitability of the finance companies indicates the well-being of the management and it is one of the most important indicator for the investors. Hence, identifying the determinants of profitability of listed finance companies is vitally important. However, the contradictory findings on profitability determinants reported in the literature and relatively low evidence available in this regard in Sri Lankan context creates the necessity for studying this matter in Sri Lanka. This study aims at identifying the firm specific determinants and macro-economic determinants of the profitability of listed finance companies in Sri Lanka. Company size, capital ratio, loan ratio and deposits ratio were taken as firm specific determinants while inflation and GDP growth rates were considered as macro-economic variables. The Return on Assets and Return on Equity was considered as the proxy for the profitability. 125 firm year observations were taken as the sample of this study covering 25 listed finance companies for five years' period from 2011 to 2015. Random effect regression model was used to analyze the strongly balanced panel data set of the study. The result revealed that the company size, capital ratio, loan ratio and GDP growth rate have a positive and significant impact on profitability while GDP growth rate shows the highest relationship. However, the deposits ratio and inflation show a negative impact on profitability. Study recommends the corporate managers to maintain healthy capital ratios, to improve the size with diversified branch networks and invest in more on loans and advances to enhance the profitability.

Keywords: Firm specific factors, Listed finance companies, Macro-economic factors, Profitability determinants