

A Study on the impact of Capital Structure on Financial Performance of Listed Companies in Sri Lanka - Evidence from Beverage Food and Tobacco Sector

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Today's business world is very dynamic and competitive compared to the past epoch. The decision making bodies of the businesses must pay sufficient attention on various aspects in order to be success in the market. Financial Management is one of such vital important aspects to an organization. It plays the major role in the success of a business. The scholarly findings have disclosed contradictory ideas on how the capital structure impacts on financial performance of businesses. Hence this study was conducted with the objective of identifying the impact of capital structure on financial performance of listed companies in Sri Lanka based on Beverage Food & Tobacco Sector. Debt to equity ratio was used to measure the capital structure and return on equity, return on assets and earnings per share were used as the proxy for financial performance. 170 firm year observations were used as the sample of this study covering 17 companies out of 21 companies listed in the sector. The sample period consists of 10 years (2006 to 2016). Pearson correlation analysis and panel econometrics techniques namely fixed effect regression model and random effect regression model were used to analyze the data using E- views statistical software. The correlation analysis revealed that the debt ratio has a positive relationship with return on assets, return on equity and earnings per share. The Panel data regression analysis too revealed a positive impact of capital structure on financial performance. As the empirical findings indicate that the capital structure has material effect on financial performance, the researchers recommend the corporate managers to consider the effect of leverage before adjusting the capital structure of their companies while advising the investors to consider the level of debt of the company before making investment decision.

Keywords: Capital Structure, Return on Assets, Return on Equity, Earnings per Share