

The Impact of Debt Capacity on Firm's Growth: A study of Listed Manufacturing Companies in Colombo Stock Exchange

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Capital structure and company's growth is important for any firm because company success depends on its growth and that off course required capital. In competitive market growth shows strength and stability of firm and profitability continuation in long run. In Sri Lanka few empirical studies have been done to establish the relationship between debt capacity and firm's growth. Therefore the study attempts to fill the empirical and knowledge gap by establishing how debt capacity and firm's growth are linking and how company can change its debt portion while maintaining its growth level. Hence a quantitative study has been undertaken to establish a conclusion that the debt capacity of an entity has an impact on firm's growth in listed manufacturing companies in Colombo stock exchange. From the twenty sectors of the Colombo stock exchange, manufacturing sectors was selected for the present study. The sample of this study composed of 31 listed manufacturing companies in the Colombo Stock Exchange and period of five years from 2014/15 to 2018/19 from secondary data sources. To perform the analysis of the study, STATA analyzing technique has been used. The study discovered a significant relationship between interest coverage and market capitalization. Further identified that the interest coverage has a significant negative impact on market capitalization but debt to assets ratio has an insignificant positive impact on market capitalization. There is no prior literature in Sri Lanka comprising Debt Capacity and Firms' Growth. So, this study contributes to the extant literature and fills the existence gap in the literature by providing empirical evidence regarding the impact of Debt Capacity and Firms' Growth in the Sri Lankan context.

Keywords: Debt to assets; Interest coverage; Market capitalization; Price earnings