

Impact of Capital Structure on Profitability “An Empirical Analysis of Listed Hotel Sector Companies in Sri Lanka”

K.H.A. Tharanga^{1*} and K.M.M.C.B. Kulathunga²

¹*Department of Tourism Studies, Uva Wellassa University, Badulla, Sri Lanka*

²*Department of Management Sciences, Uva Wellassa University, Badulla, Sri Lanka*

**Corresponding Author E-mail: amith.tharanga1234@gmail.com, TP: +94767971700*

The primary purpose of conducting this research is to measure the impact of the capital structure on profitability. At present capital structure is crucial to the firm's value, and it is a very important factor in determining the firm's financial performance. Accordingly, in this study, the capital structure plays the most significant role in the firm's financial decision making process. This decision-making process may have a wide range of policy issues and may cause fluctuation in the organization's profitability. Previous research stated that capital structure is highly influenced by the financial performance of the organization. Therefore, this study focuses on examining the impact of capital structure on profitability. This research is basically based on 27 listed hotel companies in the Colombo Stock Exchange. This study used secondary data which were collected from annual reports of the 27 listed hotel companies over the period of 2011-2020. Descriptive statistics, correlation analysis and regression analysis were conducted using Eviews software in order to accomplish the objectives. Total debt to total assets (DTA), total debt to total equity (DTE) and interest coverage ratio (ICR) were used to measure the capital structure and both return on assets (ROA) and return on equity (ROE) were used to measure the profitability of the firm. According to the results of correlation analysis, both ROA and ROE show negative relationships with the capital structure. Considering the regression analysis, the researcher identified the positive impact of capital structure on ROA. However, it shows the negative impact of capital structure on ROE. This study also demonstrates that capital structure is a combination of debt and equity, and it reveals that debt should not be higher than equity in listed hotels. This study implies the optimal combination of the debt and equity relevant to the listed hotel companies. Besides that this study is most important to makers to an organization. It will provide a way of increasing profitability by using the optimum combination of debt and equity.

Keywords: Capital Structure; Profitability; Listed hotel Companies