

IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY OF LISTED FINANCE COMPANIES IN SRI LANKA



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ABSTRACT

Capital Structure is a critical part for any business organization, because of whether a business is newly born or it is on ongoing. It required fund to carry out it activates and unless enough fund it is very difficult to achieve success in an organization. In organization fund referred as capital. Managing capital structures have an impact to its operation such as earn it profit. In the context the researcher is carried out of find how the capital structures impact on profitability of listed finance company.

Capital structure is measured using three variables as a debt equity ratio, debt to total fund ratio and long term debt equity ratio. Profitability measured using four variables such as net profit ratio, return on capital employed, return on equity ratio, and return on assets. Data were collected by using secondary information from 29 listed finance companies.

According to the correlation analysis, it shows that debt equity ratio and long term debt equity ratio is correlated with net profit ratio, return on capital employed and return on assets except return on equity ratio. Debt to total fund ratio negatively correlated with all profitability ratios. According to regression analysis, capital structure has impact on net profit and capital structure does no

t make any impact on return on capital employed. In return on equity, debt equity and long term debt equity ratios impact on return on equity. Eventually, debt to total fund ratio impacted on return on assets. As on overall, finding seems that capital structure have impact on profitability of company.

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