

**IMPACT OF CAPITAL LEVERAGE ON THE PROFITABILITY
OF COMPANIES IN THE MANUFACTURING SECTOR IN
SRI LANKA**



EGODAGE DON KASUP SAMEENDRA



**DEPARTMENT OF COMMERCE
FACULTY OF COMMERCE AND MANAGEMENT
EASTERN UNIVERSITY, SRI LANKA**

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ABSTRACT

The Leverage will play a dynamic role in every financial manager's mind, while they are fulfilling their duty of stake holders. Moreover, in developing countries situation is different than developed countries due to economic factors. Under the objectives of the research researcher find out level, relationship and impact of capital leverage and profitability. The study covered twenty listed companies which were selected from manufacturing sector in Colombo Stock Exchange over the period of five years from 2012 to 2016. Capital leverage was measured by using debt equity ratio and gearing ratio. And profitability was measured by using return on capital employed and net profit margin. Researcher has used descriptive analysis, correlation analysis and regression analysis to achieve research objectives. Finally researcher found that there is statistically insignificant weak negative relationship between leverage ratios (debt equity ratio and gearing ratio) and return on capital employed and also there is significant weak positive correlation between net profit margin and leverage ratios. However, the findings of this research are based on a study conducted on the selected companies of manufacturing sector. Hence, the results are not generalizable to companies in other sectors. The finding is more useful to financial managers of companies for taking sound decisions on their capital structure.

Keywords: Capital leverage, profitability, manufacturing firms .

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