

**IMPACT OF CAPITAL STRUCTURE ON FINANCIAL
PERFORMANCE OF COMPANIES IN THE HOTELS AND
TRAVELS INDUSTRY IN SRI LANKA**



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ABSTRACT

This study examines the impact of capital structure on financial performance of hotels and travels industry companies. Population of hotels and travels industry companies listed on Colombo Stock Exchange and a sample of 36 companies were used. The collected secondary data from 36 companies covered the period from 2013/2014 to 2016/2017 was used to examine the impact of capital structure on financial performance of hotels and travels industry companies in Sri Lanka.

The components used to measure the capital structure are gearing ratio and debt to equity ratio. To measure the financial performance, it has taken gross profit margin, net profit margin, return on equity and return on asset. The study adopted both descriptive and quantitative research design. Descriptive statistics, Pearson's correlation and simple regression analysis are used to analyze the data.

Based on the finding of the study, it conclude that the major components of capital structure such as gearing ratio and debt equity ratio has significant weak negative relationship with gross profit margin and net profit margin. Gearing ratio and debt to equity ratio has significant moderate negative relationship with return on equity and return on asset. And also capital structure variables have significant negative impact on financial performance indicators.

The sample is limited to CSE listed 36 companies in hotels and travels sector. And therefore the findings cannot be generalized to all firms. Improved capital structure management policy could improve firm financial performance by reducing the firm's debt and maximizing the firm's investments. In addition, the results can be practically use for other purposes, including monitoring of firms by auditors, debt holders, and other stakeholders.

(Key words: Capital Structure, Financial Performance, Gearing Ratio, Debt to Equity Ratio, Gross Profit, Net Profit, Return on Equity, Return on Asset)

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