

IMPACT OF LEVERAGE RATIOS ON PROFITABILITY OF COMMERCIAL BANKS IN SRI LANKA

By



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A Project Report

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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 leverage and profitability. The study covered ten commercial banks which were selected from banking sector in Colombo Stock Exchange.

This research investigates the magnitude of the impact of the bank's leverage ratios, on the profitability of Sri Lankan commercial banks. Financial data from ten commercial banks have been taken into in carrying out the research, representing both private sector and state sector. The period involved in the research is from 2008 to 2017. Three profitability measures namely return on assets, return on equity and net profit margin are included to make results more comprehensive. The independent variables employed are debt to equity ratio and debt to total assets ratio. Data were collected using Secondary data sources.

Researcher found weak negative relationship between Capital leverage and Net Profit Margin, moderate positive relationship between Capital leverage and Return on Equity and weak negative relationship between Capital leverage and Return on Assets. As the result of it researcher found out statistically significant impact between the debt to assets and Net Profit Margin. And also there was statistically significant impact between the debt equity ratio and Return on Equity. Furthermore, researcher found out statistically insignificant impact between Debt Equity and net profit margin, debt to assets and return on equity, Debt to assets and return on assets and debt to equity and return on assets. The finding is more useful to financial managers of banks for taking sound decisions on their capital structure.

Keywords: Leverage, Profitability, Commercial Banks

TABLE OF CONTENTS

Acknowledgement	I
Abstract	II
Table of contents	III
List of Tables	VII
List of Figures	VIII
Abbreviations	IX
1. Chapter one	
Introduction	1
1.1 Back ground of the study	1
1.2 Problem Statement	5
1.3 Research Questions	5
1.4 Objectives of the study	5
1.5 Significance of the study	6
1.6 Scope of the study	6
1.7 Summary	7
2. Chapter two	
2.1 Introduction	8
2.2 Financial Leverage	8
2.2.1 Debt Capital	10
2.2.1.1 Bonds and notes	10
2.2.1.2 Debentures	11
2.2.2 Equity Capital	11
2.2.2.1. Common Stock	11
2.3 Leverage Ratios	12
2.3.1 Debt to equity Ratio	13
2.3.2 Debt to Assets ratio	13
2.4 Profitability	14
2.4.1 Profitability Ratios	15

2.4.1.1 Net Profit Ratio	15
2.4.1.2 Return on Assets Ratio.....	16
2.4.1.3 Return on Equity Ratio	16
2.5 Theories relating to financial leverage and profitability	17
2.5.1 Financial Leverage.....	17
2.5.1.1 Pecking order Theory.....	17
2.5.1.2 Agency Cost Theory	18
2.5.2 Theories relating to profitability	19
2.5.2.1 Risk taking theory	19
2.5.2.2 Uncertainty-Bearing Theory of Profit.....	19
2.5.2.3 Innovation Theory.....	20
2.5.2.4 Dynamic theory of Profit	20
2.6 Empirical Review on relationship between Financial Leverage and Profitability	21
2.7 Summary	22
3. Chapter three	
3.1 Introduction.....	23
3.2 Conceptualization	23
3.2.1 Financial Leverage.....	25
3.2.1.1 Debt Equity Ratio	25
3.2.1.2 Debt to Total Assets Ratio	26
3.2.2 Profitability Measures.....	26
3.2.2.1 Net Profit Ratio	26
3.2.2.2 Return on Equity Ratio	27
3.2.2.4 Return on Assets Ratio.....	27
3.3 Operationalization.....	27
3.4 Summary	29
4. Chapter four	
4.1 Introduction.....	30
4.2 Study Setting, Design, Method of Survey	30
4.3 Study population and Sample	31

4.4 Method of Data collection	32
4.5 Data presentation	32
4.6 Methods of Measurements.....	32
4.7 Methods of Data Analysis.....	32
4.7.1 Univariate Analysis.....	33
4.7.1.1 Descriptive Statistics.....	33
4.7.2 Bivariate analysis	33
4.7.2.1 Correlation analysis	33
4.7.3 Multivariate Analysis.....	33
4.7.3.1 Regression Analysis.....	34
4.8 Hypotheses of the Study	35
4.9 Methods of Data Evaluation	35
4.9.1 Descriptive Statistics.....	35
4.9.2 Correlation	36
4.9.3 Regression.....	37
4.10 Summary	37
5. Chapter five	
5.1 Introduction.....	38
5.2 Data analysis	38
5.2.1 Descriptive analysis of capital leverage.....	38
5.2.1.1 Descriptive analysis of Debt Equity of commercial banks in Sri Lanka	38
5.2.1.2 Descriptive analysis of Debt to Assets ratio of commercial banks in Sri Lanka.....	40
5.2.2 Descriptive analysis of profitability	41
5.2.2.1 Descriptive analysis of ROE of commercial banks in Sri Lanka.....	41
5.2.2.2 Descriptive analysis of NPM of commercial banks in Sri Lanka	42
5.2.2.3 Descriptive analysis of ROA of commercial banks in Sri Lanka	43
5.3 Correlation analysis	45
5.3.1 Correlation analysis of between Debt to Equity and NPM in commercial banks in Sri Lanka	45

5.3.2 Correlation analysis of between Debt to Assets and NPM in commercial banks in Sri Lanka	45
5.3.3 Correlation analysis of between Debt Equity and Return on Equity in commercial banks in Sri Lanka.....	46
5.3.4 Correlation analysis of between Debt to Assets and Return on Equity in commercial banks in Sri Lanka.....	46
5.3.5 Correlation analysis of between Debt Equity and Return on Assets in commercial banks in Sri Lanka.....	47
5.3.6 Correlation analysis of between Debt to Assets and Return on Assets in commercial banks in Sri Lanka.....	47
5.4 Regression analysis.....	48
5.4.1 Regression analysis of bank's Leverage ratios and Net Profit Margin....	48
5.4.2 Regression analysis of bank's Leverage ratios and Return On Equity	50
5.4.3 Regression analysis of bank's Leverage ratios and Return On Assets	53
5.5 Summary of Hypothesis Testing.....	55
5.6 Summary	56
6. Chapter Six.....	56
6.1 Introduction.....	56
6.2 Discussion on descriptive statistics.....	56
6.2.1 Discussion on independent variable.....	56
6.2.1.1 Discussion on capital leverage level	56
6.2.2 Discussion on dependent variable.....	57
6.2.2.1 Discussion on profitability level	57
6.3 Discussion on bivariate analysis	57
6.3.1 The relationship between capital leverage and NPM	57
6.3.2 The relationship between capital leverage and ROE	58
6.3.3 The relationship between capital leverage and ROA.....	58
6.4 Discussion on Regression analysis	59
6. 4.1 The impact of capital leverage on NPM	59
6. 4.2The impact of capital leverage on ROE.....	59
6. 4.3The impact of capital leverage on ROA	60
6.5 Summary	62