

The Impact of Debt Financing on Firms' Financial Performance: Evidence from Listed Manufacturing Companies in Sri Lanka

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ABSTRACT

Introduction - Every company face a common issue whether to use equity financing, debt financing or some hybrid of these in deciding their capital structure. Because, it is a managerial decision that affect to the shareholders' risk and return. The purpose of this study is to examine the relationship between debt financing and financial performance of listed manufacturing companies in Sri Lanka.

Design/Methodology/Approach - This study uses Ordinary Least Square approach and random effect model to analyse panel data sample of 16 manufacturing companies listed under the Colombo Stock Exchange during the 2013-2019 period. This study follows the random sampling method to collect the data. Descriptive Analysis, Correlation Analysis, Multicollinearity, Normality Test, Regression Analysis and Hausman Test were used to analyse and interpret the results by using E-views as the statistical software.

Findings The results shows that there is a significant negative impact of debt financing on firms' financial performance because, long term debt financing and short-term debt financing have significant negative impact on financial performance of manufacturing companies in Sri Lanka. Furthermore, long term debt is the highly impacted debt financing method on financial performance. There is no any significant impact of firm size and firm age on financial performance of manufacturing companies in Sri Lanka.

Conclusion Final results of this study concludes that the overall model is statistically significant as well as fulfils the existing research gap. Researchers conclude that there is a relationship between debt financing and financial performance of manufacturing companies in Sri Lanka.

Keywords: *Debt Financing, Financial performance, Capital Structure*