

## **The Effect of Capital Structure on Profitability in Sri Lankan Listed Companies**

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The capital structure decision is essential for any business organization. To understand how companies finance their operations, it is necessary to examine the determinants of their financing or capital structure decisions. All decision relevant to the capital structure is crucial for every company. The decision is very impotent due to impact of this decision has power to achieve competitive advantage as well as the prove survival of the company (Shubita & Alsawalhah, 2012). Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. The successful selection and use of capital is one of the key elements of the firms' financial strategy (Velnampy & Niresh, 2012). This paper seeks to investigate the relationship between capital structure and profitability of listed companies on the Colombo Stock Exchange (CSE) during a five-year period. In order to meet the objectives of the study, data will collect from secondary data from financial statements of the selected companies and descriptive analysis, correlation and regression analysis is used as the methodology in this paper. Variables used for the analysis include profitability and leverage, equity ratios. Profitability measured by Return on Assets (ROA). The overall result of the study suggests short term debt and debt to equity in Sri Lankan context to be negatively related to profitability of the company. As well as long term debt to total assets and sales growth of the firm positively influenced to the profitability of the company.

**Keywords:** Capital structure, Profitability, Colombo Stock Exchange