

## **Financial leverage and Firm Performance: Evidence from Sri Lankan Beverage, Food and Tobacco Companies**

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### **Abstract**

This study investigates the effect of firm leverage and product diversity towards the financial performance of Sri Lankan Beverage, food and tobacco companies. Beverage, food and tobacco companies listed in Colombo Stock Exchange (CSE) for the period of 2011 to 2017. Financial leverage was considered as the independent variable and a financial performance was considered as the dependent variable. Accordingly debt to equity ratio & debt to asset ratio was used to measure the financial leverage and ROA; ROE & EPS were used as measures of financial performance. Product diversity was used as the moderating variable of this study. The secondary data obtained from corporate annual reports of sample companies were used in this study and descriptive statistics, correlation and regression analysis were used to analyses data of this study.

Results of the study show a positive relationship between financial leverage and financial performance. Thus, alternative hypothesis which proposed as there is a relationship between financial leverage and firm performance was accepted and rejected the null hypothesis which proposed as there is no relationship between financial leverage and firm performance. Findings conclude that Beverage, food & tobacco sector companies of Sri Lanka can enhance their financial performance and profitability margins by having proportion of leverage in their capital structures.

**Key Words:** Financial Leverage, product diversity, financial performance, Beverage, food & tobacco sector