

Impact of Firms Specific Factors & Macroeconomic Factors on Debt Financing: Evidence from Capital Goods, Consumer Service and Foods Beverage & Tobacco Sectors in Sri Lanka

H.P.H. Pankaja¹ and L.A.S. Perera²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

himalpankaja@gmail.com¹, shanakaap@kln.ac.lk²

ABSTRACT

Introduction: The purpose of this study is to identify the impact of firms' specific factors and macroeconomic factors which determine the level of debt financing over equity financing of the capital goods, consumer service, and food, beverage, and tobacco sectors in Sri Lanka.

Design/Methodology/Approach: Pecking order theory, agency theory, and trade off theory are taken to explain the relationship between debt financing. The population of the research is twenty sectors and two hundred and twenty-five non-financial companies listed on the Colombo stock exchange (CSE) in Sri Lanka. We are only focusing on 3 sectors, including 15 non-financial companies, selected for the sample, based on the market capitalization and using annual reports from the year 2011 to 2020 as the sample period of this research. A Panel Regression is performed using the E-Views 10 and Stata 13 software to analyse the calculated ratios for each factor.

Findings: Based on the findings of a study involving a number of variables, the firm's leverage is negatively related to its performance and interest rates, but agency cost of debt, tangibility, liquidity, sales growth, non-debt tax shield, and inflation rate are all positively related to leverage. Furthermore, it found that firm performance and interest rate number have a negative significant effect on the dependent variable, liquidity, inflation rate have a positive significant effect on the dependent variable, while all other variables are insignificant to the model. Agency cost, tangibility, sales growth, non-debt tax shield, firm age, and size of the firm are not in line with the hypotheses developed.

Conclusion: Evidence from past research is found to be proven with the results generated. This study contributes to enhancing the existing literature through analyzing the impact of factors on debt financing in non-financial companies listed in Sri Lanka.

Keywords: *Debt Financing, Firm Specific Factors, Macroeconomic Factors, Pecking Order, Trade Off*