Impact of Capital Structure on Firm Financial Performance of Manufacturing Sector Companies in Sri Lanka

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The discussion about the optimum capital structure has been a core topic in corporate finance from several years in Sri Lanka. Capital structure defines as a combination of debt capital and equity capital in an organization. Organizations have different financing sources. It can be categorize into two sources, the internal financing and external financing. It is challenging for firms to identify the right mixture of debt and equity to achieve firms goals. This study was investigated the relationship between capital structure and firms financial performance of manufacturing listed companies in Sri Lanka. The sample of the study consisted of 14 manufacturing listed companies in Sri Lanka. This analysis is done by analyzing the financial statements of these companies from 2010 to 2015. The findings revealed that capital structure as measured by debt to equity ratio (DE) had statistically insignificant positive relationship with financial performance (ROA). Whereas long term debt to total assets (LDTA) had statistically significant negative relationship with financial performance (ROA) and similarly, short term debt to total assets (SDTA) had a negative and statistically significant relationship with financial performance (ROA).

Keywords: Capital structure, Financial performance, Equity, Short term debt, Long term debt