

## **THE EFFECT OF CAPITAL STRUCTURE ON PROFITABILITY IN SRI LANKAN COMPANY**

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### **Abstract**

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. Weston and Bringham (1978) define capital structure as the permanent financing of the firm represented by long-term debt plus preferred stock and net worth. 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 (Velampy & Aloy 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 sources mainly from financial report of the selected companies 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). Expected outcome of this paper is to develop a theory relating to the capital structure and profitability based on the Sri Lankan Context.

**Key words:** Capital Structure, Profitability, Colombo Stock Exchange