

CAPITAL STRUCTURE AND PERFORMANCE OF SRI LANKAN LISTED COMPANIES

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Abstract

Capital structure refers to the percentage of capital (money) at work in a business. There are two forms of capital: equity capital and debt capital. Each has its own benefits and drawbacks. **Equity Capital** refers to money owned by the shareholders (owners). Typically, equity capital consists of two types contributed capital, which is the money that was originally invested in the business in exchange for shares of stock and retained earnings, which represents profits from past years that have been kept by the company. The debt capital in a company's capital structure refers to borrowed money that is at work in the business. Debt capital mainly we can categorise as Short term debt and long term debt. The firm's ability of fulfil the needs of its stakeholders is tightly related to the firm's financing decisions. Capital or Financial Structure decision is to find out the best mix of debts and equity that a company uses to finance its business. (Damodaran 2001)

This research seeks to assess the Capital Structure and performance of the listed business companies in Sri Lanka to identify impact between the Capital Structure and Companies Performance. The analysis done using the annual financial statements of 20 business companies listed on the Colombo Stock Exchange which covers a period of five (5) years from 2009-2014. Correlation and regression analysis applied on performance indicators such as Return on Asset (ROA) and Profit Margin (PM) as well as Short-term debt to Total assets (STDTA), Long term debt to Total assets (LTDTA) and Total debt to Equity (TDE) as capital structure variables. The expected result of this study is find out the wether there is any significant impact between capital structure and performance of the firm's and to recommend that companies should use more of equity or debt in financing their business activities to enhance the performance of the Sri Lankan Listed Companies.

Key words: Capital Structure, Performance, Sri Lankan Listed Companies