

Cost of Capital and Total Debt Ratio Affecting to the Value of the Firm: Special Reference with Top Capitalization Companies in Sri Lanka

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A firm should always be directed towards the maximization of its value by examining its capital structure or financial leverage decision from the point of view of its impact on the firm value. This study examines the impact of Weighted Average Cost of Capital (WACC) and Total Debt Ratio (TDR) on Firm Value in Sri Lankan top capitalization companies. The study is significant for the decision makers to choose an optimal capital structure in a way to maximize the firm value. The study further tries to identify the most prominent factor. Twenty companies were selected as the sample from among 120 top capitalization companies. Data were collected from published audited annual reports and web site of Colombo Stock Exchange (CSE) from 2009 to 2015. By using the multiple regression model the study concluded that the Weighted Average Cost of Capital (WACC) in Sri Lankan context is positively related to Value of Firm and Total Debt Ratio negatively influenced to the Value of the Firm. Finally, it can be concluded that TDR is significantly effect on the value of firm and WACC has moderate effect.

Keywords: Weighted-Average Cost of Capital, Total Debt Ratio, Value of the firm, Debt and equity capital