

Impact of DuPont Model Parameters on Financial Performance: A Study of Listed Companies in Food, Beverage and Tobacco Industry Group in Sri Lanka

Panamaldeniya, A. A. M. A. K.¹ and Menike, M. G. P. D.²

In the context of the current goal of finance, an analysis of the determinants of a company's Return on Equity (ROE) is useful to many stakeholders of a company. DuPont model is one of the most efficient models in studying the drivers of a companies' ROE. Literature review on the DuPont model revealed inconclusive evidence on the functioning of its components. Further, in the Sri Lankan context, empirical evidence on its functioning is difficult to find. Accordingly, this paper studies the impact of five-step DuPont ratios on financial performance of listed companies in food, beverage and tobacco industry group in Colombo Stock Exchange. Data were collected from financial statements of 36 listed companies in food, beverage and tobacco industry group, and analyzed using panel regression analysis for a period of 10 years (2010-2019). The study revealed a positive significant impact of Earnings before Interest and Taxes (EBIT) margin, tax burden ratio, asset turnover ratio on ROE, positive but insignificant impact of equity multiplier ratio on ROE, and negative insignificant impact of interest burden ratio on ROE in listed companies in food, beverage and tobacco industry group at 5% significance level. It also revealed EBIT margin as the most important determinant of companies ROE. These findings provide valuable inputs for financial managers and investors in Sri Lankan food, beverage and tobacco industry group and contribute to Sri Lankan literature by extensively analyzing Sri Lankan company's financial performance.

Keywords: *Financial performance, Five-step DuPont ratios, Food, Beverage and Tobacco industry group, Return on Equity*

¹ Department of Business Finance, Faculty of Management, University of Peradeniya, Sri Lanka [ashvini1996a@gmail.com]

² Department of Business Finance, Faculty of Management, University of Peradeniya, Sri Lanka [menikem@yahoo.com]