

The Impact of Free Cash Flow on Capital Expenditure of Listed Companies un CSE (With Special Reference to the Capital Goods Sector)

K.A.D.B.H. Kahandawala¹ and R.P.C. Ranjani²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

bihari9587@gmail.com¹, chitra@kln.ac.lk²

ABSTRACT

Introduction: Free Cash flow can be considered as one of the major implications of the financial strength of a company. Companies in their introductory stage allocate a higher portion from their funds into capital expenses because they are in the infant stage and need growth. Therefore, they have to increase their capacity level more and more by investing funds in profitable projects. Even though, there are large number of studies have been conducted in developed and developing countries on this topic, no research study conducted in capital goods sector in Sri Lanka. Therefore, this study attempts to examine the impact of free cash flow on capital expenditure of listed companies in the capital goods sector in CSE.

Design/Methodology/Approach: The sample of the study consist with 25 companies from capital goods sector in Colombo Stock Exchange and the data was collected over the period of 2011 to 2020. Capital expenditure was taken as dependent variable and free cash flow was taken as the main independent variable and dividends, depreciation, and total assets were considered as control variables. The study used panel data regression and descriptive statistic to analyse the data.

Findings: The study revealed that the free cash flow has a significant negative impact on capital expenditure in companies listed in the capital goods sector in Colombo Stock Exchange. In contrast, Dividend, depreciation and total assets have a significant positive impact on capital expenditure in companies listed in the capital goods sector in Colombo Stock Exchange.

Conclusion: The final result emphasizes that there is a significant negative impact of free cash flow on capital expenditure in listed companies in Capital Goods sector in Sri Lankan context.

Keywords: *Capital Expenditure, Capital Goods Sector, Free Cash Flow, Colombo Stock Exchange*