

**IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY OF
DIVERSIFIED COMPANIES IN SRI LANKA**

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ABSTRACT

Capital structure is one of the most complex areas of financial decision making due to its interrelationship with other financial decisions variables. The successful selection and use of capital is vital. Therefore, this study an attempt has been made to analyze the capital structure and its impact on profit earning capacity during 2010 to 2014 (05 years) financial year based on all the listed diversified companies in Sri Lanka. For the study purpose, the data has been collected from the secondary sources i.e. from the annual reports of the selected companies. Descriptive statistics, correlation and multiple regression are used to analyze the data. The variables used for the study are debt equity ratio, long term debt equity ratio and debt to total fund ratio as the independent variables and net profit ratio, return on capital employed, return on equity and return on assets as the dependent variables. The result revealed that there are both positive and negative relationships between the capital structure and profitability of diversified companies in Sri Lanka. Furthermore, the finding of the study can be considered as helpful for managers and users that are ebullient to develop financial description quality and practices of capital structure.

Key words: Capital structure, Profitability, Diversified Companies

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