

# Determinants of Capital Structure of Firms: Evidence from Colombo Stock Exchange

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This study investigates the determinants of capital structure of firms and the relationship between capital structure and the value of firm listed in Colombo Stock Exchange (CSE) Sri Lanka. The study involved 51 companies listed in CSE and has tested data for the period of ten years from 2005 to 2014. The Panel Data regressions model used to test the theoretical relationship between the financial leverage and determinants of the firms. The result reflected that all the variables are significantly affect on the capital structure decisions. Profitability, growth opportunity and non debt tax shield found negative association with the leverage while tangibility showed positive relationship with leverage ratio. The research found that the profitability, tangibility, growth opportunity and non debt tax shield are some key determinants of the capital structure decisions in Sri Lanka. Moreover, same sample and same method were used to analysis the relationship between capital structure and the firm value. The result of the study revealed that, share price and earnings per share have positive significant impact on leverage and price earnings has negative insignificant impact on leverage. Therefore, the end result revealed that capital structure has significant impact on firm's value.

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