

## **Relationship between financial leverage and financial performance of beverage, food and tobacco companies listed in Colombo Stock Exchange**

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### **Abstract**

This study investigates the relationship between financial leverage and financial performance in beverage, food and tobacco companies listed in Colombo Stock Exchange in Sri Lanka. A sample of 14 companies was selected randomly from the beverage, food and tobacco sector considering data availability. Debt to equity ratio and debt ratio were used as independent variables of the study and return on equity was used as dependent variable of the study. Firm size, sales growth, assets growth and liquidity were used as control variables of the study. Data were collected for five years period from 2011 to 2015. This study utilized descriptive statistical analysis and it was found that variability of financial performance was lower during the period of study but the variability of leverage is relatively high. Correlation analysis confirms that there is a significant and positive association between debt to equity ratio, debt ratio, assets growth, liquidity and sales growth with return on equity. Further regression analysis was employed to examine the relationship between financial leverage and financial performance. This study developed six hypotheses and among those hypotheses only two hypotheses were accepted. The results of the study revealed that, there is A significant and positive relationship between debt ratio and return on equity. Debt to equity ratio is not significantly correlated with return on equity. There is no relationship between firm size, assets growth and sales growth with return on equity. However, there is positive relationship between liquidity and return on equity. The findings of the study reveals that the companies in beverage, food and tobacco sector listed in Colombo Stock Exchange can improve their financial performance by employing the debt and achieve a sustainable future growth by making vital decisions about the choice of their optimal capital structure.

**Keywords:** *Colombo Stock Exchange, financial leverage, financial performance.*