

**THE IMPACT OF GROWTH AND FINANCIAL
STRENGTH ON CAPITAL STRUCTURE OF LISTED
COMPANIES**

**(WITH SPECIAL REFERENCE TO BEVERAGE FOOD AND TOBACCO AND
MANUFACTURING SECTOR)**

**M.A. FATHIMA RIFNA
Registration No: SEU/IS/06/MG/13
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**DEPARTMENT OF ACCOUNTANCY AND FINANCE
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Abstract

The aim of this study is to investigate the impact of growth and financial strength on capital structure of listed companies traded in Colombo Stock Exchange (CSE). This study focused only two sectors, beverage food and tobacco and manufacturing out of 20 sectors in CSE. The sample size of study is 25 companies and a period of five years from 2006 to 2010. The required data and information for the study were gathered from published annual reports, handbook of listed companies. The growth of the companies is represented by assets growth, profit growth and sales growth, which were calculated using growth index. Altman (1968) multiple discriminant function was constructed to ascertain the financial strength of sample companies. Both correlation and regression model were used to analyze the data.

According to the results of the analysis, the researcher found that the assets growth, profit growth and financial strength are positively related with financial leverage and sales growth is negatively related with financial leverage in beverage food and tobacco sector. But, in manufacturing sector, the assets growth and profit growth negatively related with financial leverage and sales growth and financial strength are positively related with financial leverage. So, to get an optimum capital structure and favorable performance, the growth opportunities and effects of debt overhung should be recognized by capital market.

This type of research will helpful for the investors to make their effective and efficient economic decisions.