THE RELATIONSHIP BETWEEN FINANCIAL LEVERAGE AND PROFITABILITY OF FIRMS IN THE HOTEL AND TRAVEL SECTOR IN SRI LANKA

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ABSTRACT

The objective of the research is to establish the relationship between financial leverage and profitability of Hotel and travel firms listed at the Colombo Securities Exchange for five year period. This study examined the theories of financial leverage, profitability and empirical studies relevant to the study objective and is of value to investors and managers in achieving in-depth understanding on the relationship between financial leverage and the profitability of hotel and travel firms. According to the research there are two variables available such as financial leverage and the profitability. Under the financial leverage there were two indicators mentioned. Debt equity ratio and the debt to total asset are the two main denominated indicators for financial leverage. As well as net profit margin, Return on equity and return on capital employed are the denominated indicators for profitability. So using the indicators my research has gone to find the relationship between financial leverage and profitability of hotel and travel sector firms. According to the research questions data will be gathered from annual reports of selected firm which are listed in Colombo stock exchange for five years. And also the study totally depends on secondary data which collected by using annual reports. Population of the study is 38 companies in hotel and travel sector. Therefore based on the data availability of hotel and travel sector firms that researcher has selected 20 companies. Univariate analysis and bivariate analysis was carried out for analyze the data using excel 2010 and statistical package of social science (SPSS) 19 version. Finally research findings show that each and every variable of the financial leverage and profitability has negative relationship. Debt to equity ratio and net profit ratio has the negative relationship. Similarly debt equity ratio and return on equity and return on capital employed have the negative relationship. Furthermore debt to total asset and net profit margin, return on equity and return on capital employed have negative relationship. So this research tells that firms using lower debt level it can earns more or firms using high debt level using that their earns get lower.

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