

DETERMINANTS OF PROFITABILITY AND THEIR IMPACT ON FINANCIAL PERFORMANCE: A CASE STUDY IN SELECTED LISTED MANUFACTURING COMPANIES IN COLOMBO STOCK EXCHANGE (CSE)

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ABSTRACT

The focus of this study is to find out the significant impact of determinants of the profitability on financial performance of selected listed manufacturing companies and identify the relationship among determinants of the profitability and financial performance of the selected listed manufacturing companies in Colombo Stock Exchange (CSE) from the financial year 2010/11 to 2014/15. Determine the right, suitable and proper capital structure is the major task of the firms here capital structure includes two major things such as equity and debt capital. Capital structure is vital in determining the return on equity (ROE). Liquidity is also one of the major components in determining the profitability of any firms. Liquidity much be needed for day to day financial transactions of the firms. Firms' growth is also determining the firm's profitability. Descriptive, regression and correlation analysis were performed in this study. Regression results revealed that there is significant ($R^2 = 0.754/75.4\%$) impact of determinants such as capital structure, firms' growth and liquidity position on the profitability of the selected listed manufacturing companies. Correlation results confirmed that there is significant relationship among selected listed manufacturing companies' capital structure, firms' growth, liquidity position and profitability. Finally as a researcher suggests that every selected listed manufacturing firm should give key focus on its firm's growth, capital structure and liquidity position to enhance its profitability in the future.

Keywords: *Capital structure, Firm's growth, Financial performance, Liquidity position, Listed manufacturing firms.*

1. INTRODUCTION

There are 39 companies have listed in Colombo Stock Exchange (CSE) under the manufacturing sector in Sri Lanka. Manufacturing companies contribute vitally to the Sri Lankan economy. After the civil war of the country every organization takes

several activities to expand their market as well as try to achieve competitive advantages. In the case of manufacturing companies liquidity position, sales growth year to year and capital structure are very important aspect and they have to handle those vital components very carefully for