Impact of Capital Structure on Market Value of Listed Beverage, Food and Tobacco Companies in Sri Lanka

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The market value of a firm is influenced by various factors. The market value movement is based on the firm’s fundamentals, market efficiency, macroeconomic indicators and perception of the investors. Several studies have proven that market value of a firm is explained by its capital structure. In line with that, the study was conducted to find out the impact of Capital Structure on Market Value in listed food, beverage and tobacco companies in Colombo Stock Exchange (CSE) for the period from 2011 to 2017. The study incorporated 18 companies out of 23 companies listed in Colombo Stock Exchange under Beverage Food and Tobacco industry using simple random sampling method. It analyses the relationship between market value and capital structure by employing panel least square method approach. Debt to Equity ratio is considered as the independent variable and the market value of the company is considered as the dependent variable for the purpose of this study. Based on the regression analysis, the results show a positive relationship between Debt to Equity ratio of the companies and market value. The results were statistically significant at 5% level of significance. Also the results indicate that adding more debt to overall capital positively affects the market value of the company. The results therefore suggest that the firms with higher market capitalization incorporate more debt into their capital structure in Food, Beverage and Tobacco sector in CSE.

Keywords: Capital structure, Market value, Debt and equity