Factors Influencing on Debt Financing of Licensed Finance Companiesin Sri Lanka

K.G.K.C. Kumara[1,*], D.D.K. Sugathadasa[2] and J.M.N. Wijekumara[3]

[1,2,3]*Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka,Mihintale, Sri Lanka*

[*]Corresponding author: kasunchandika.k@gmail.com

Abstract

Finance companies are considered important in both developed and developing countries. Although they play an important role in economic growth and employment, their businesses are often hampered by the lack of adequate financing from financial institutions. The study aimed to investigate the impact of corporate specific factors and macroeconomic factors on the debt financing (Debt/Total Asset) of licensed finance companies in Sri Lanka. This study attempted to fill the gap in the literature by investigating the factors influencing on debt financing of licensed finance companies in Sri Lanka. The study sample is twenty licensed financial companies in Sri Lanka for the period from 2015 to 2020 and the researcher used simple random sampling technique to identify the sample. Data were obtained from the annual reports of the respective companies and the central bank of Sri Lanka and collected data were analysed using descriptive statics analysis, correlation analysis, and panel regression analysis. Accordingto the results of the regression analysis, profitability has a significant negative and liquidity has a significant positive impact on debt financing, while other factors gross domestic product, inflation rate, interest rate, and corporation growth are not influencingon debt financing. The results inferred that liquidity would boost debt financing and profitability would reduce debt financing of licensed finance companies in Sri Lanka. Financial students and academic researchers can use the findings and recommendations to stimulate further research in this area.

Keywords: Debt financing, liquidity, profitability