

Impact of Financial Leverage on Corporate Growth: Evidence from Listed Firms on the Colombo Stock Exchange

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Abstract

The objective of this study is to examine the impact of financial leverage on corporate growth among firms listed on the Colombo Stock Exchange (CSE) in Sri Lanka. This research is important, as limited empirical studies have addressed the leverage–growth relationship in the Sri Lankan context, where firms face unique challenges such as underdeveloped capital markets and high reliance on debt financing. Financial leverage is assessed using the total debt-to-equity ratio (TDTE) and the debt-to-total-assets ratio (TDTA), while corporate growth is measured through sales growth, asset growth, market capitalization growth, return on assets growth, and return on equity growth. A quantitative approach was adopted, utilizing panel data from 38 high-market-capitalization firms across 20 industries over the period 2020–2024. Descriptive statistics, correlation analysis, and panel regression models were employed to analyze the data. The findings indicate that TDTE has a statistically significant positive impact on market capitalization growth, while TDTA exerts a significant negative influence on sales growth and market capitalization growth. However, neither leverage measure shows a significant effect on asset growth, ROA growth, or ROE growth. These mixed results suggest that while equity-based leverage can enhance market valuation, excessive asset-linked debt constrains revenue generation and investor confidence. The study contributes to the existing literature by providing empirical evidence from an emerging market context where research is scarce. It further emphasizes the importance of balanced debt management for corporate managers and highlights policy implications, encouraging regulators to improve access to equity financing and strengthen capital market mechanisms to support sustainable capital structures.

Keywords: corporate growth, CSE, financial leverage, listed companies