**Abstract**

Profitability plays an essential role in leverage decision. In general, the profitable companies are able to tolerate high level of debt, by virtue of their ability to meet the financial obligations on time. The profit earning companies can easily add more debt in their capital structure. Diversified sector is a capital intensive sector, where greater prominence has been given in designing the capital structure. Hence, the present paper makes an attempt to examine the impact of leverage on profitability of diversified sector for the period 1995-96 to 2009-10. A panel data approach has been applied to analyse the data. The study reveals that the leverage has a significant influence on profitability.