

# **CAPITAL STRUCTURE AND ITS DETERMINANTS A STUDY ON SUGAR FIRMS LISTED IN KSE**

**By**

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A thesis presented to the Department of Management Sciences, Bahria University  
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of the MBA degree





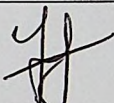
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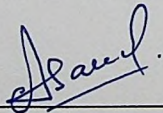
#### Supervisor-Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	25/9/14	Cubicle	Selection of Topic	
6	16/10/14	Cubicle	Framework about the important things & guidelines about how to manage	
7	11/12/14	Cubicle	Checking of 3 Chapters.	

#### APPROVAL FOR EXAMINATION

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I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at 13% that is within the permissible limit set by the HEC for the MBA thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

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## Abstract

**Purpose:** The aim of this study is to explore the determinants of listed sugar firms in Pakistan and to investigate the effect of these determinants on leverage. The determinants used in this study are firm's size, tangibility of the assets, growth, earnings volatility, profitability, and effective tax rate. There is no research conducted on the recent data of sugar firms in Pakistan.

**Design/Methodology:** The investigation is performed using panel data for a sample of 28 sugar firms listed in KSE and this secondary data is collected from the annual publications of SBP. The time horizon selected for the study is 2007 to 2012. The study analyzed the data through Regression model. Also, the correlation test is applied.

**Findings:** The results of the study show that firm's size, assets tangibility, growth, earnings volatility, and profitability are negatively related with leverage, whereas tax rate has a positive relation with debt. Size and profitability are found to be statistically significant at the significance level of 5%. Tangibility of the assets, growth, earnings volatility and tax rate has statistically insignificant impact on leverage. The overall model is significant at the significance level of 5%.

**Practical Implications:** The findings of this study suggest that financial managers have to focus more on size and profitability to find out the optimal capital structure. The outcomes of this study are more consistent with Pecking Order theory which means that sugar manufacturing firms should use retained earnings first for new financing and then go for debt financing.

**Keywords:** Capital Structure, sugar manufacturing firms, Leverage, Determinants, Panel Data, KSE, Pakistan.

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CHAPTER 1  
INTRODUCTION