

“DETERMINANTS OF DEBT AND EQUITY IN CEMENT INDUSTRY OF PAKISTAN”

BY
MUHAMMAD SHOAIB
16397

A thesis presented to the Department of Management Sciences, Bahria University
Karachi Campus, in partial fulfilment of the requirements
of the MBA degree



FALL, 2015

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MBA Thesis
2nd Half-semester Progress Report & Thesis Approval
Statement

Name of Student	MUHAMMAD SHOAB
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Thesis Title	DETERMINANTS OF DEBT EQUITY IN CEMENT INDUSTRY OF PAKISTAN

Supervisor-Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	10-Apr 2015		Discussion on Research methodology of research.	
6	3-Jun 2015		Discussion on Research data analysis & critical analysis of research.	
7	28-Oct 2015		Critical Analysis conclusion Recommendation & Plagiarism Test.	

APPROVAL FOR EXAMINATION

Candidate's Name: Muhammad Shoab Registration No. 16397
Thesis Title: Determinants of debt & equity in cement industry of Pakistan

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 ----- 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.

Supervisor's Signature: Date: 9/11/2015

Name: M. Akbar Saeed

HoD's Signature: Date: _____

ABSTRACT

Purpose:

This research study reveals the factors that elaborate the choice of optimal debt to equity ratio for the listed companies in the Cement sector of Pakistan. The aim of this study is to identify the relation that resides among the four explanatory variables and the leverage of firms. These four variables include the tangibility of assets, growth, and size of assets and profitability of the firms. The research has been performed on the 17 companies falling in the cement sector of Pakistan and listed on Karachi stock exchange from the year 2007 to 2014.

Design/Methodology: The investigation is performed using panel data for a sample of 18 of 22 cement 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 2014. The study analyzed the data through Pooled regression and Fixed Effects model. Also, the descriptive statistics and correlation test is applied.

Findings: The results of the study show that this Model is not significant. Firm's size, Growth and profitability are negatively related with leverage, whereas Tangibility has a positive relation with debt. Profitability is 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 said to be significant.

Practical Implications: The findings of this study suggest that financial managers have to focus more on growth, 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 chemical firms should use retained earnings first for new financing and then go for debt financing. If the firms have more tangible assets then they can acquire more debt.

Keywords: Capital Structure, Leverage, Determinants, Chemical Sector, Panel Data, KSE, Pakistan.

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