

# **“Determinants of Capital Structure”**

## **A case for the Cement Industry of Pakistan**

**By**

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## 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 18 companies falling in the cement sector of Pakistan and listed on Karachi stock exchange from the year 2006 to 2012.

***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 2006 to 2012. The study analyzed the data through Pooled regression. Also, the descriptive statistics and correlation test is applied.

***Findings:*** The results of the study show that this Model is meaningful. 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 cement 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, Cement Sector, Panel Data, KSE, Pakistan.

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