



"CAPITAL STRUCTURE AND ITS DETERMINANTS"

A STUDY ON CHEMICAL FIRMS LISTED IN KSE

By

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ABSTRACT

Purpose: The aim of this study is to explore the determinants of listed chemical 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 chemical firms in Pakistan.

Design/Methodology: The investigation is performed using panel data for a sample of 26 of 32 chemical 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 and Fixed Effects model. Also, the descriptive statistics and correlation test is applied.

Findings: The results of the study show that Fixed Effects Model is appropriate. Firm's size, assets tangibility and profitability are negatively related with leverage, whereas growth, earnings volatility and tax rate have 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 chemical firms should use retained earnings first for new financing and then go for debt financing.

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

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CHAPTER ONE:
BACKGROUND/INTRODUCTION