



RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FIRM PERFORMANCE

A Thesis submitted to Department of Management Sciences
in part fulfillment of the requirement for the MBA degree

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ABSTRACT

Purpose- Major purpose of this study was to evaluate the impact of capital structure on the performance of a firm in Pakistan. The increasing poor performance of textile companies in Pakistan majorly prompted researcher to conduct this study.

Methodology/sample- The study involved use of annual reports of 20 listed textile companies in Karachi Stock Exchange (KSE). The financial data was used for the period of 2009-13 for financial analysis. To analyze the data, Panel Least Square Regression, and Correlation tests were applied. The software used was Eviews. Financial analysis of the companies' annual reports was conducted to determine the effect of their capital structure on their performance.

Findings- The analysis and comparative results clearly suggested that Textile companies in Pakistan face a decline in their performance when debt is increased in their capital structure. The result showed that debt measured by debt equity ratio (DER) has a significantly negative relationship with the firm performance measured by, Gross Profit Margin (GPM), Net Profit Margin (NPM), Return on Equity (ROE), and Return on Assets (ROA).

Practical Implications- The outcomes of the research might help managers and the firm decision makers, and other related quarters to understand the impact of capital structure on the firm performance in Pakistan

Keywords: Firm performance, Gross profit, Net Profit, Return on Equity, Return on Asset, Capital Structure, Debt Equity Ratio.