

**"Determinants of Capital Structure: A Study of
Chemical Sector of Pakistan Firms Listed on
Pakistan Stock Exchange (PSX), Pakistan."**



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DEDICATION

This Report is dedicated to my loving and caring teachers and my beloved family for their prayers, encouragement and motivation.

ABSTRACT

The main objectives of this study are to find out the determinants of capital structure of chemical sector firms' listed on Pakistan Stock Exchange and also find out which theory of capital structure is dominating in chemical sector. In this study the firm's profitability, size, growth opportunities, liquidity, size, assets tangibility and business risk are taken as independent variables while leverage is used as dependent variable. This research is done by using 132 observations and selected 22 firms of chemical sector of Pakistan, which are listed on Pakistan stock exchange (PSX), as sample and analyzed six years data from 2009 to 2014. The study used secondary data published by state bank of Pakistan (SBP) as Financial Statement Analysis of (Non-Financial Sector). The collected data analyzed by using a famous software known as SPSS by using the techniques of descriptive statistics, correlation and multiple regression. Findings of this study shows that profitability, size, liquidity and business risks have significant negative impact on leverage, which means if these independent variable(s) increases the dependent variable will decrease. Whereas, assets tangibility has significant positive impact on leverage, which means increase in tangibility will lead to increase in total debt. While growth opportunities has negative and non-debt tax shield has positive impact but statistically insignificant. And on the basis of results study found that both theory of capital structure i.e. pecking order and trade off theories are equally prevailing in chemical sector of Pakistan. Therefore, chemical sector firms should consider profitability, size, business risk, assets tangibility and liquidity when making their financial decisions.

Keywords: Capital Structure, Trade-off Theory, Pecking Order Theory, Profitability, Size, Assets Tangibility, Liquidity, Business Risk, Non Debt Tax Shield, Growth Opportunities,

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LIST OF ABBREVIATIONS AND DEFINITIONS

MM : Modigliani and Miller

STT : Static Trade-off Theory

POT : Pecking Order Theory

NDTS : Non Debt Tax Shield

Leverage : The amount of debt used to finance a firm's assets

Capital structure: A combination of firm's finances its overall operations and growth by using different sources of funds.