

“Determinants of Capital Structure: A Study of Cement Sector of
Pakistan Firms Listed on Karachi Stock Exchange (KSE),
Pakistan.”



By:

MUHAMMAD SHOAIB

(01-120122-053)

MBA

Supervisor:

SIR SHAHZAD BUTT

Department of Management Sciences

Bahria University Islamabad

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ABSTRACT

The main objectives of this study are to find out the determinants of capital structure of cement sector of Pakistan firms listed on Karachi Stock Exchange (KSE) and which capital structure theory is more prevailing in cement sector between pecking order and trade-off theories. In this research profitability, size, tangibility, liquidity, and risk are used as independent variables and total debt to total assets (leverage) as dependent variable to determine the relationship of independent variables with dependent variable to achieve the study objectives. This research is done by applying the regression model and selected 17 firms of the cement sector of Pakistan listed on KSE (Karachi stock exchange) as sample and analyzed data from 2009 to 2013 (five years). This study used secondary data from the source of State Bank of Pakistan (SBP) published as balance sheet analysis of non-financial firms, and the collected data analyzed by using a very popular statistical software package known as SPSS by using the techniques of descriptive statistics, correlation and multiple regression. The regression model shows the clear picture of independent variables effect on dependent variable. This study shows that profitability, size and liquidity are the determinants of capital structure of cement sector, as study shows profitability, size and liquidity have significant negative relationship with total debt to total assets, which means if these independent variable(s) increases the dependent variable (debt) will decrease. Whereas, positive relationship exists between tangibility and risk with leverage, but not significant, which means increase in tangibility or risk will lead to increase in total debt to total assets. And on the basis of results study found that pecking order theory of capital structure is prevailing in cement sector or industry of Pakistan, which means that the cement sector prefer internal financing. Therefore, cement sector firms should consider profitability, size and liquidity when making their financial decisions.

Keywords: Capital Structure, Trade-off Theory, Pecking Order Theory, Profitability, Size, Tangibility, Liquidity, Risk, Karachi Stock Exchange, Cement Sector of Pakistan.

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