

**CREDIT RATING AND CAPITAL
STRUCTURE CHOICES:
A STUDY OF NON-FINANCIAL FIRM
LISTED ON PSX**

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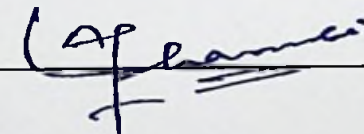


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Abstract

Purpose– This study assessed the impact of credit rating on capital structure of the listed non-financial firms of Pakistan.

Methodology & Design– This study has investigated the relationship between credit rating and capital structure of non-financial firms listed on Stock Exchange Pakistan (PSX) using the panel data. The study's sample includes 73 non-financial firms from the period 2017 to 2020 i.e. four years. Data is taken from multiple sources including Pakistan credit rating agency website (PACRA), annual reports and financial statements analysis of listed non-financial firms by the State bank of Pakistan (SBP), Pakistan Stock Exchange (PSX) and the Business Recorder's website. The study utilized a quantitative research method, which applied secondary data. This study adopted a correlational design to test the relationship between variables. Both explanatory and inferential statistics is utilized to analyze the data.

Findings--The findings of the current study revealed negative impact of credit rating on a firm's capital structure along with two firm level control variables i.e. tangibility and profitability. While positive association between capital structure and debt maturity, and inflation is reported. It concluded that independent and control variables are statistically significant and slightly strong relationship are observed.

Limitation--. For this purpose, data is collected for the tenure of 2017 to 2020. Among the 301 rated firms from the Pakistan credit rating agency (PACRA), our final sample consists of 73 listed non-financial firms as per the availability of the data for all the studied variables.

Recommendation-- It recommended to the local authorities like SBP, SECP and Finance ministry to work and create encouraging policies for the growth of Pakistan's bonds markets and enhancements of the credit rating agencies. Since, this provides a low cost alternate to firms' for their financing decisions. Moreover, firms' whom rating is close to the threshold of speculative category may take some preventive measures to avoid further downgrading as they may miss out the opportunity to use a low cost channel of debt financing.

Keywords-- Credit rating (CR), Capital structure (CS).

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