

“The Effect of Financial Leverage on Profitability and Investment
decisions of the firm”

An Empirical Analysis of the Firm listed on Pakistan Stock Exchange
(PSX), Pakistan



By:

(WAQAS AHMAD)

(01-120131-056)

MBA

SUPERVISOR:

MA'AM SAHER ZEAST

Department of Management Science

Bahria University Islamabad

2016

ABSTRACT

Purpose: The main objective of this research work is to empirically evaluate the effect of high financial leverage on firms' profitability and investment decisions in Pakistan as one of emerging economies.

Methodology / Approach: Ratios, correlation and regression analysis used in order to investigate the connection among the high debt level and firms' profitability and investment decisions.

Findings: Using accounting based measures of financial performance, like Return on assets (ROA), Return on equity (ROE), Net Profit Margin (NPM), and Earnings per share (EPS), and based on sample of 24 firms from 5 different sectors of non financial firms listed on Pakistan Stock Exchange, data from 2009 to 2014 the results using the SPSS software, analysis of correlation shows that there is opposite relationship among the high leverage levels and profitability and investment decisions.

Keywords: Capital Structure, Profitability, Investment, Accounting.

Type of Paper: Research Paper

ACKNOWLEDGMENT

All praise to Almighty **Allah**, the most merciful and compassionate who gave me the skills, courage, abilities and patience for completion of this final thesis

I express my gratitude to my supervisor Ms. Saher Zeast for her continuous efforts, guidance, cooperation and encouragement. She provided me the chance to continue this project effectively and efficiently while having the busy schedule. I extend my appreciation for her time, support and fruitful advice.

I would also like to thank my parents and brother who always motivated and provided full support in order to complete the thesis.

Special thanks to all friends, colleagues and seniors for their feedback and time. They guided me well in every aspect of research and gave the courage throughout the research work; it's all because of them that I have completed the research within time.

DEDICATION

I would like to dedicate this thesis to my parents and brother who motivated and provided full support in order to complete this research work. This research would not have been possible without their encouragement, guidance and support.

TABLE OF CONTENTS

Chapter 1: INTRODUCTION	- 1 -
1.1 RESEARCH STRATEGY	- 6 -
1.2 RESEARCH PROBLEMS.....	- 8 -
1.3 RESEARCH QUESTIONS.....	- 8 -
Chapter 2: LITERATURE REVIEW	- 11 -
2.1 TESTING THE RELATIONSHIP INVESTMENT AND LEVERAGE.....	- 17 -
2.2 Elements Effecting the Relation of Leverage, value & Investment	- 21 -
Chapter 3: THEORATICAL FRAMEWORK	- 44 -
3.1 Measures Related with Study:	- 44 -
3.2 HYPOTHESIS	- 45 -
Chapter 4: RESEARCH METHODOLOGY	- 46 -
4.1 MEASURES	- 46 -
4.1.1 INDEPENDENT VARIABLES	- 46 -
4.1.2 Total debts to Total Equity.....	- 46 -
4.2 Dependent Variables.....	- 47 -
4.2.1 Return on Assets (ROA).....	- 47 -
4.2.2: Return on Equity (ROE):	- 47 -
4.2.3: Net Profit Margin (NPM):.....	- 48 -
4.2.4: Earnings per Share (EPS):.....	- 49 -
Chapter 5: DATA COLLECTION	- 50 -
5.1: SAMPLE SIZE.....	- 52 -
5.2: Time Period	- 52 -
5.3: Secondary Data collection Sources	- 52 -
5.4: RESULTS CALCULATION:.....	- 53 -
Chapter 6: ANALYSIS AND DICUSSIONS	- 54 -
6.1: CORRELATION RESULTS	55
6.2: ANALYSIS OF CORRELATION RESULTS.....	56
6.3: REGRESSION RESULTS	61
6.4 ANALYSIS OF REGRESSION RESULTS	63
CHAPTER7: CONCLUSION.....	67
7.1 FUTURE RESEARCH AND LIMITATIONS	69
References:	71