

**“Performance of Levered and non-levered firms of Pakistan”**



**By:**

**Gulzaib Akram**

**Enrollment # 01-120121-021**

**MBA Finance**

**Supervisor**

**Sir Ajab Khan Burki**

**DEPARTMENT OF MANGEMENT SCIENCES**

**BAHRIA UNIVERSITY ISLAMABAD**

**2015**

## **DEDICATION**

This humble effort is sincerely dedicated to my sweet, ever loving parents, teachers and friends. I would like to say special thanks to my mother who always praised for my success and whose best wishes and motivation gave me a strength to fulfill my research work.

## **ACKNOWLEDGEMENT**

All Praise to Almighty Allah, the most merciful and beneficent, who gave me the intelligence, willingness and fortitude to undertake and complete this research successfully.

First and foremost I would like to express my gratitude to my supervisor Sir. Ajab Khan Burki, without whose mentoring and consistent support I would not have been able to complete this research.

I am also very thankful to my family and friends who have always been a source of encouragement for me throughout my life.

Contents

Chapter # 1.....	1
ABSTRACT.....	2
1. INTRODUCTION .....	3
1.1 Industry Background.....	4
<b>1.1.1 Pakistan Pharmaceutical Industry</b> .....	4
<b>1.1.2 Chemical Sector</b> .....	5
<b>1.1.3 Power Generation and Distribution sector</b> .....	5
<b>1.1.4 Food &amp; Personal Care Products sector</b> .....	6
1.2 Scope.....	7
1.3 Research Gap .....	7
1.4 Problem Statement .....	7
1.5 Research Objective .....	8
1.6 Research Question .....	8
1.7 Hypothesis statement .....	8
Chapter # 2.....	9
2. LITERATURE REVIEW .....	10
2.1 Introduction.....	10
<b>2.1.1 Leverage and Firm profitability</b> .....	10
<b>2.1.2 Relationship between leverage (Debt) and stock return</b> .....	20
<b>2.1.3 Non-levered firm and its profitability</b> .....	23
2.2 Conclusion .....	28
Chapter # 3.....	30
3. THEORETICAL FRAMEWORKS .....	31
3.1 Return on equity.....	31
3.2 Return on Assets .....	31
3.3 Debt to equity ratio .....	32
Chapter # 4.....	33
4. METHODOLOGY .....	34
4.1 Data source .....	34
4.2 Working sample .....	34
4.3 Statistical Techniques .....	35
Chapter # 5.....	36

5. FINDING AND ANALYSIS.....	37
5.1 Levered firms.....	37
5.2 Non-Levered firms.....	42
5.3 Comparative Descriptive Analysis.....	47
Chapter # 6.....	50
6. CONCLUSION AND RECOMMENDATION.....	51
7. REFLECTION.....	53
8. BIBLIOGRAPHY:.....	54
9. APPENDIX.....	59
9.1 Levered firms:.....	59
9.2 Non-Levered firms:.....	60

## **ABSTRACT**

This study determines to investigate two main objectives; 1) whether levered or unlevered firms explain variations in the profitability of KSE listed firms of Pakistan. 2) Which firm (Levered and non-Levered) is suitable for investor in term of their return on investment? The study used panel data for Return on Assets (ROA), Return on Equity (ROE) and Debt to Equity Ratio (D/E ratio) of four sectors of Pakistan (Pharmaceutical sector, Chemical Sector, Power and Generation& Distribution sector and Food & personal care product sector) for 5 years (2010-2014) collected from Karachi Stock Exchange (KSE) of Pakistan. For analysis Linear Regression model, ANOVA testing and Descriptive statistical analysis is used. The overall results of the current study shows the non-levered firms have significant positive relationship between both dependent variables (ROE, ROA) and independent variable (D/E ratio). On the other hand, levered firms have significant negative results for return on assets and Debt to equity ratio but the results for return on equity and debt to equity ratio is insignificant and negative which mean levered firms are not appropriate for equity investors.

Keywords: Levered firms, Non-levered firms, Profitability ratio, Debt to equity ratio.