

“Capital Structure and Profitability: An Analysis of Pakistan’s Non-Financial Industries”



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ABSTRACT:

This research study attempted to study the relationship between the capital structure and the profitability of the companies in various non-financial sectors. For the purpose of this study, five representative industries from non-financial sector were chosen. These industries are: Textile industry, food industry, chemical industry, energy sector and paper industry.

This study concludes that capital structure decisions indeed impact the profitability of the companies in the non-financial sector. Precisely, the relationships were established in the five representative industries from the non-financial sectors; these industries are: Textile industry, Food industry, Energy Sector, Chemical industry and paper industry. The results from the food industry were more statistically significant as compared to other industries.

The results concluded that the capital structure of the companies is made such that the tilt is more towards the debt side, the profitability of the companies will be negatively influences. Objectively speaking, if debt is increased, the profitability will go down. One or all of the profitability ratios will fluctuate with the capital structure decisions, that is, Debt to Equity ratio.

The implications of the results are therefore very important for the financial managers as well as the top management of any company. Managers should therefore try to strike a proper balance between the debt and equity so as to make the company more and more profitable. It is therefore of paramount pertinence that the managers make a well targeted attempt to achieve an optimum capital structure that not only fulfills the profitability requirements but also meet the other imminent demands put forward by various stakeholders of the company.